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File #: 159334

December 30, 2014

***VIA ELECTRONIC FILING***

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: Joint Application of PPL Interstate Energy Company and PPL Electric Utilities Corporation for All of the Necessary Authority, Approvals, and Certificates of Public Convenience (1) for the Transfer of PPL Corporation's Ownership Interests in PPL Interstate Energy Company to Talen Energy Corporation, and Certain Post-Closing Transactions Associated therewith; (2) for the Transfer of Certain Property Interests Between PPL Electric Utilities Corporation and PPL Energy Supply, LLC and its Subsidiaries in Conjunction with the Transfer of All of the Interests of PPL Energy Supply, LLC and its Subsidiaries to Talen Energy Corporation; (3) for any Modification or Amendment of Associated Affiliated Interest Agreements; and (4) for any Other Approvals Necessary to Complete the Contemplated Transactions**  
**Docket Nos. A-2014-2435752 & A-2014-2435833**

Dear Secretary Chiavetta:

Enclosed for filing on behalf of PPL Interstate Energy Company, PPL Electric Utilities Corporation, and the Office of Small Business Advocate, is the Joint Petition for Settlement of All Issues in the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,



Christopher T. Wright

CTW/jl

Rosemary Chiavetta, Secretary  
December 30, 2014  
Page 2

Enclosures

cc: Certificate of Service  
Honorable Susan D. Colwell

**CERTIFICATE OF SERVICE**

**Docket Nos. A-2014-2435752 & A-2014-2435833**

I hereby certify that a true and correct copy of the foregoing 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).

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Date: December 30, 2014

  
\_\_\_\_\_  
Christopher L. Wright

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Joint Application of PPL Interstate Energy :  
Company and PPL Electric Utilities :  
Corporation for All of the Necessary : Docket Nos. A-2014-2435752  
Authority, Approvals, and Certificates of : A-2014-2435833  
Public Convenience (1) for the Transfer of :  
PPL Corporation's Ownership Interests in :  
PPL Interstate Energy Company to Talen :  
Energy Corporation, and Certain Post- :  
Closing Transactions Associated therewith; :  
(2) for the Transfer of Certain Property :  
Interests Between PPL Electric Utilities :  
Corporation and PPL Energy Supply, LLC :  
and its Subsidiaries in Conjunction with :  
the Transfer of All of the Interests of PPL :  
Energy Supply, LLC and its Subsidiaries to :  
Talen Energy Corporation; (3) for any :  
Modification or Amendment of Associated :  
Affiliated Interest Agreements; and (4) for :  
any Other Approvals Necessary to :  
Complete the Contemplated Transactions :

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**JOINT PETITION FOR SETTLEMENT  
OF ALL ISSUES**

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TO THE HONORABLE ADMINISTRATIVE LAW JUDGE SUSAN D. COLWELL:

**I. INTRODUCTION**

PPL Interstate Energy Company ("PPL IEC"), PPL Electric Utilities Corporation ("PPL EU") (hereinafter, PPL IEC and PPL EU are collectively referred to as the "Applicants"), and the Office of Small Business Advocate ("OSBA"), parties to the above-captioned proceeding (hereinafter, singularly "Signatory Party" and collectively "Signatory Parties"), hereby file this "Joint Petition for Settlement of All Issues" ("Settlement") and respectfully request that

Administrative Law Judge Susan D. Colwell (“ALJ”) and the Pennsylvania Public Utility Commission (“Commission”) approve the proposals set forth in the above-captioned Joint Application subject to the terms and conditions of the Settlement.<sup>1</sup> In support of the Settlement, the Signatory Parties state the following:

## **II. BACKGROUND**

1. PPL Corporation (“PPL Corp.”) intends to spin-off its deregulated electric generation and retail electric and gas supply business lines to the shareholders of PPL Corp. and then immediately combine them with the competitive power generation business lines of Raven Power Holdings LLC (“Raven”), C/R Energy Jade, LLC (“Jade”), and Sapphire Power Holdings LLC (“Sapphire” and together with Raven and Jade hereinafter collectively referred to as the “RJS Entities”) to form Talen Energy Corporation (“Talen Energy”).

2. Talen Energy will become a new stand-alone, publicly-traded independent power producer and, at the time of its formation, is expected to be one of the largest competitive power generators in the United States. As of the closing of the proposed transaction, the current shareholders of PPL Corp. will own 65% of the outstanding shares of Talen Energy, and Riverstone Holdings LLC (“Riverstone”), through the RJS Entities or an existing or newly formed special purpose entity that will be wholly owned by the RJS Entities and controlled by Raven (“RJS SPE”), will control 35% of the outstanding shares of Talen Energy. As part of this larger transaction, PPL Corp.’s interests in PPL IEC will be transferred to Talen Energy.

3. The spinoff of PPL Corp.’s deregulated electric generation and retail electric and gas supply business lines from its regulated electric utility business lines does not require

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<sup>1</sup> The Office of Consumer Advocate (“OCA”) and the International Brotherhood of Electrical Workers, Local 1600 (“IBEW”), intervenors in this proceeding, are not parties to the Settlement but have indicated that they do not object.

Commission approval. However, certain ancillary transfers necessary and appropriate to this fundamental transaction may require Commission approval.

4. On July 30, 2014, the Applicants filed the above-captioned Joint Application requesting all necessary authority, approvals and certificates of public convenience from the Commission pursuant to Sections 1102(a)(3), 2101(a), 2210(a), and 2811(e) of the Public Utility Code, 66 Pa.C.S. §§ 1102(a)(3), 2101(a), 2210(a), and 2811(e), authorizing: (1) the transfer of all of PPL Corp.'s ownership interest in PPL IEC to Talen Energy, and certain post-closing transactions associated therewith; (2) to the extent required, the transfer of certain property interests between PPL EU and subsidiaries of PPL Energy Supply in order to fully separate and define certain property rights among PPL EU and the PPL Energy Supply subsidiaries; (3) to the extent required, any modifications or amendments to affiliated interest agreements among and between PPL EU, PPL Energy Supply and its subsidiaries, including PPL IEC; and (4) all other approvals and certificates appropriate, customary, or necessary under the Public Utility Code to carry out the transactions contemplated in the Joint Application in a lawful manner.

5. As part of the proposed transaction, PPL Corp.'s indirect ownership interest in PPL IEC, which holds a certificate of public convenience to transport oil and natural gas only to generating facilities, will be transferred to Talen Energy. In the Joint Application, the Applicants seek the Commission's approval pursuant to Section 1102(a)(3) of the Public Utility Code for the transfer of this indirect ownership interest in PPL IEC to Talen Energy.

6. As part of the proposed transaction, certain property rights for PPL EU's existing electric substation, transmission, and distribution facilities will be reaffirmed through new agreements. Because these agreements are simply memorializing existing rights and no consideration will be exchanged, the Joint Applicants seek a finding by the Commission that

Section 1102(a)(3) will not apply to these agreements. Alternatively, in the event that the Commission concludes that approval is nevertheless required with respect to these agreements, PPL EU requests such approval.

7. The proposed transaction also involves certain intercompany agreements between PPL Energy Supply subsidiaries and PPL EU or PPL IEC. Because there will be no amendment or modification to these agreements and the only agreements that will terminate are certain interconnection agreements that will be replaced by interconnection agreements under the jurisdiction of the Federal Energy Regulatory Commission, the Applicants seek a finding by the Commission that Chapter 21 of the Public Utility Code does not apply to these intercompany agreements. In the alternative, PPL EU requests approval under Section 2102 of the Public Utility Code, 66 Pa.C.S. § 2102, with respect to the termination or revision of such intercompany agreements in connection with the proposed transaction, to the extent deemed necessary by the Commission.

8. Finally, in the Joint Application the Applicants seek a finding from the Commission that the RJS Entities or the RJS SPE (as applicable) will not have a controlling interest in Talen Energy, and thereby PPL IEC, upon closing of the proposed transaction. In the alternative, if the Commission finds that the RJS Entities (or the RJS SPE) have a controlling interest, then the Applicants request, as part of the final order entered in this proceeding, approval of the following actions by or with respect to the RJS Entities (or the RJS SPE) described above: (1) the acquisition by the RJS Entities (or the RJS SPE) of 35% of the common stock of Talen Energy, which will indirectly own 100% of PPL IEC upon the closing of the proposed transaction; (2) the future sell-down transactions of the shares of Talen Energy common stock held by the RJS Entities (or the RJS SPE) to less than a combined 20% of the

outstanding shares of Talen Energy's common stock as part of Riverstone's ordinary course management of its private equity portfolio interests; and (3) potential future internal reorganizations that may occur from time to time within Riverstone's corporate structure.

9. By Secretarial Letter dated August 5, 2014, the Applicants were directed to publish notice of the Joint Application in newspapers having general circulation in the areas involved, and to file proof of publication with the Commission on or before September 5, 2014. The notice was published on August 11, 12 and 13, 2014. On August 29, 2014, the Applicants filed Affidavits for Proof of Publication.

10. On August 16, 2014, notice of the Joint Application was published in the *Pennsylvania Bulletin*, 44 Pa.B. 5547. On August 25, 2014, a Hearing Notice was issued scheduling an Initial Prehearing Conference on September 18, 2014, at 1:30 p.m. in Hearing Room 1, Plaza Level, Commonwealth Keystone Building, 400 North Street, Harrisburg, PA 17120. On August 29, 2014, the ALJ issued a Prehearing Order describing the requirements for interested parties to participate in this proceeding and directing parties to file Prehearing Conference Memoranda.

11. Pursuant to the notice published in the *Pennsylvania Bulletin* and the August 29, Prehearing Order, protests and petitions to intervene were required to be filed on or before September 5, 2014. Timely notices of appearance and/or petitions to intervene were filed by the OCA, IBEW, and Allegheny Electric Cooperative, Inc. ("AEC"). The only timely protest filed was by the OSBA.

12. A prehearing conference was held as scheduled on September 18, 2014. The timely petitions to intervene were unopposed and granted in the Second Prehearing Order dated

September 22, 2014. A litigation schedule was established at the prehearing conference and adopted in the Second Prehearing Order.

13. On September 23, 2014, the Applicants filed a Motion for Protective Order. No active parties objected to the Motion and the Protective Order was issued September 24, 2014.

14. On September 25, 2014, Monitoring Analytics, LLC acting as the Independent Market Monitor for PJM Interconnection, L.L.C. ("Market Monitor") filed Comments and Motion to Intervene Out of Time. On October 7, 2014, the Applicants filed an Answer and Objection to the Market Monitor's Comments and Motion to Intervene Out of Time.

15. On October 17, 2014, the ALJ issued an Initial Decision denying the Market Monitor's Motion to Intervene Out of Time, and striking the Market Monitor's Comments from the record. No exceptions to the Initial Decision were filed.

16. On October 15, 2014, AEC filed a Petition for Leave to Withdraw its Petition to Intervene. On November 21, 2014, the ALJ issued an order granting AEC's Petition and removed AEC as a party from the service list.

17. The OSBA was the only active party to protest the transactions contemplated in the Joint Application. In its protest, the OSBA questioned: (i) the Applicants' request for a finding by the Commission that the RJS Entities (or RJS SPE) will not have a controlling interest in Talen Energy; (ii) the Applicants' alternative request for preapproval of the RJS Entities' (or RJS SPE's) sell-down of their shares in Talen Energy below 20% of Talen Energy's outstanding common stock; and (iii) the Applicants' alternative request for preapproval of internal restructurings that may occur from time to time within Riverstone's corporate structure.

18. The active parties engaged in discovery and settlement discussions throughout the proceeding.

19. As a result of settlement discussions, the Applicants and the OSBA reached a settlement in principle prior to the November 21, 2014 due date for Non-Applicant parties' direct testimony. The settlement in principle resolved all of the issues and concerns raised by the OSBA, and the remaining the active parties have all indicated that they have no objection to the settlement in principle.

20. On November 20, 2014, the active parties advised the ALJ of the settlement in principle and requested that the procedural schedule be suspended. On November 21, 2014, the ALJ suspending the procedural schedule.

21. As a result of the efforts described above, the Signatory Parties have agreed to a settlement that fully resolves all issues among them. The Settlement agreed to by the Signatory Parties is set forth in the following Section III.

### **III. SETTLEMENT**

22. The following terms of this Settlement reflect a carefully balanced compromise of the interests of all of the Signatory Parties in this proceeding. The Signatory Parties unanimously agree that the Settlement is in the public interest. The Signatory Parties respectfully request that the proposals set forth in above-captioned Joint Application be granted subject to the terms and conditions that follow.

23. The provisions of this Settlement are conditional upon the approval by all regulatory and legal authorities of the transactions as detailed by the Joint Applicants at Joint Applicants' Statement No. 1, pages 22 to 23. No provision of this Settlement may be construed to imply that any of the Parties except the Applicants advocate approval for these transactions in any forum other than before the Commission with respect to the issues detailed in the Joint Application.

24. Subject to the terms and conditions set forth herein, the Parties agree that the proposals set forth in the Joint Application are acceptable as modified below and should be adopted by the Commission.

25. The Parties agree that the Commission's Statement of Policy on "Utility Stock Transfer Under 66 Pa.C.S. § 1102(a)(3)" ("Stock Transfer Policy"), 52 Pa. Code § 69.901, applies to the proposed transaction. The Parties acknowledge that the Stock Transfer Policy does not establish a binding norm or obligation, and that the Commission has discretion on whether and how to apply the Stock Transfer Policy to a specific transaction.

26. The Parties agree that the transfer of PPL Corp.'s indirect ownership interest in PPL IEC, which holds a certificate of public convenience to transport oil and natural gas only to generating facilities, to Talen Energy is in the public interest and should be approved, subject to the conditions stated in Paragraph 23, *supra*.

27. The Parties agree that, upon closing of the proposed transaction, PPL Corp.'s public shareowners will own 65% of Talen Energy's common stock, and the remaining 35% interest in Talen Energy's common stock will be held by either the RJS Entities or the RJS SPE.

28. The Parties agree that, immediately following the closing of the proposed transaction, Riverstone will indirectly control, through the RJS Entities or the RJS SPE, 35% of the shares of Talen Energy's common stock, and that Talen Energy will indirectly own 100% of PPL IEC.

29. The Parties agree that Riverstone's acquisition of a 35% indirect controlling interest in PPL IEC, through the RJS Entities or the RJS SPE, is in the public interest and should be approved, subject to the conditions stated in Paragraph 23, *supra*.

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30. The Parties acknowledge that, upon the consummation of the proposed transaction, Talen Energy is expected to be a publicly traded corporation whose common shares are traded on the New York Stock Exchange (“NYSE”). As a publicly traded company, Talen Energy will be subject to the public company reporting, management controls and governance requirements under applicable federal securities laws and the NYSE rules.

31. The Parties acknowledge that day-to-day management and operations of Talen Energy will be directed and controlled by Talen Energy’s board of directors. In accordance with the rules of the NYSE applicable to NYSE-listed companies, at the time of the closing of the proposed transaction (or within applicable “phase-in” periods under the NYSE rules), Talen Energy will have a board of directors, of which a majority are independent directors as that term is defined by the NYSE rules.

32. The Parties agree that the anticipated future sell-down transactions of the shares of Talen Energy’s common stock held by the RJS Entities (or the RJS SPE) or entities that are ultimately controlled by Riverstone over time to less than a combined 20% of the outstanding shares of Talen Energy’s common stock as part of Riverstone’s ordinary course of management of its private equity portfolio interests should be approved by the Commission as part of its final order in this proceeding, subject to the following conditions and qualifications:

- (a) No sell-down of the shares of Talen Energy’s common stock held by the RJS Entities (or the RJS SPE) or entities that are ultimately controlled by Riverstone to less than a combined 20% of the outstanding shares of Talen Energy’s common stock will occur during the first 180 days immediately following the closing of the proposed transaction (it being understood that the foregoing shall not limit any

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- transfers of any such shares of Talen Energy's common stock to an entity controlled by Riverstone or to Talen Energy or one of its subsidiaries);
- (b) PPL IEC shall file written notice with the Commission within ninety (90) days at the above-captioned docket, with copies served on all parties to the proceeding, following such time when the RJS Entities (or the RJS SPE) or entities that are controlled by Riverstone collectively cease to hold at least 20% of the total outstanding shares of Talen Energy's common stock;
- (c) PPL IEC shall apply for a certificate of public convenience under 66 Pa.C.S. § 1102(a)(3) prior to the consummation of a transaction pursuant to which the RJS Entities (or the RJS SPE) or entities that are ultimately controlled by Riverstone sell 20% or more of the total outstanding shares of Talen Energy's common stock to any single entity or group of entities acting in concert as of the time of such sale (in each case, which entity or group of entities is not ultimately controlled by Riverstone); provided, however, that the RJS Entities (or the RJS SPE) or entities that are controlled by Riverstone shall be permitted, without further Commission review or approval, to temporarily transfer 20% or more of the total outstanding shares of Talen Energy's common stock to a broker, underwriter, or depository agent acting as an intermediary whose role is to facilitate the potential future sell-down transactions; and
- (d) Nothing contained herein shall preclude Commission review of stock transfers that would otherwise be subject to the Stock Transfer Policy, to the extent such transfer would result in an entity or group of entities (other than the RJS Entities,

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the RJS SPE, or entities that are ultimately controlled by Riverstone) acquiring a voting interest of 20% or more in Talen Energy.

33. The Parties agree that potential future internal reorganizations that may occur from time to time within Riverstone's corporate structure (including, interposing or eliminating holding companies or otherwise transferring equity interests in entities ultimately controlled by Riverstone to other entities ultimately controlled by Riverstone) as part of Riverstone's ordinary course of management of its private equity portfolio interests should be approved by the Commission as part of its final order in this proceeding, provided that any such internal reorganization would not result in a change in the ultimate control of the RJS Entities or the RJS SPE by Riverstone.

34. The Parties agree that the proposals set forth in the Joint Application, as modified by the terms and conditions of the settlement, includes and/or addresses all of the elements prescribed by Sections 1102(a)(3), 2101(a), 2210(a), and 2811(e) of the Public Utility Code, 66 Pa.C.S. § 1102(a)(3), 2101(a), 2210(a), and 2811(e), and that the Commission should grant all necessary and customary approvals and issue the necessary certificates of public convenience under the Public Utility Code.

#### **IV. THE SETTLEMENT IS IN THE PUBLIC INTEREST**

35. Commission policy promotes settlements. *See* 52 Pa. Code § 5.231. Settlements lessen the time and expense the parties must expend litigating a case and, at the same time, conserve administrative resources. The Commission has indicated that settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding. *See id.* § 69.401. In order to accept a settlement, the Commission must first determine that the proposed terms and conditions are in the public interest. *Pa. Pub. Util. Comm'n v. York Water Co.*, Docket No. R-00049165 (Order entered Oct. 4, 2004); *Pa. Pub. Util. Comm'n v. C.S. Water and*

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*Sewer Assocs.*, 74 Pa. P.U.C. 767 (1991). As will be detailed in the Signatory Parties' Statements in Support, the instant Settlement is in the public interest because, with the conditions imposed herein, the proposed transaction will provide affirmative public benefits.

36. Approval of the Settlement will lessen the time and expenses that the Signatory Parties, the other parties, and the Commission must expend on the proceedings.

37. The Signatory Parties will further supplement the reasons that the Settlement is in the public interest in their Statements in Support, which are attached hereto as Appendices A and B.

#### **V. CONDITIONS OF THE SETTLEMENT**

38. The Settlement is conditioned upon the Commission's approval of the terms and conditions contained in this Settlement without modification. If the Commission modifies the Settlement, any Signatory Party may elect to withdraw from the Settlement and may proceed with litigation and, in such event, the Settlement shall be void and of no effect. Such election to withdraw must be made in writing, filed with the Secretary of the Commission and served upon all Signatory Parties within five (5) business days after the entry of an Order modifying the Settlement.

39. The Signatory Parties acknowledge and agree that this Settlement, if approved, shall have the same force and effect as if the Signatory Parties had fully litigated these proceedings.

40. This Settlement is proposed by the Signatory Parties to settle certain issues in the instant proceeding. If the Commission does not approve the Settlement and the proceedings on these issues continue, the Signatory Parties reserve their respective procedural rights to evidentiary hearings, submission of additional testimony and exhibits, cross-examination of witnesses, briefing, and argument of their respective positions. The Settlement is made without

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any admission against, or prejudice to, any position that any Signatory Party may adopt in the event of any subsequent litigation of these proceedings, or in any other proceeding.

41. The Signatory Parties acknowledge that the Settlement reflects a compromise of competing positions and does not necessarily reflect any Signatory Party's position with respect to any issues raised in this proceeding. This Settlement may not be cited as precedent in any future proceeding, except to the extent required to implement this Settlement.

42. If the ALJ adopts the Settlement without modification, the Signatory Parties waive their right to file Exceptions on those issues that are resolved by this Settlement.

## **VI. CONCLUSION**

WHEREFORE, PPL Interstate Energy Company, PPL Electric Utilities Corporation, and the Office of Small Business Advocate, by their respective counsel, respectfully request as follows:

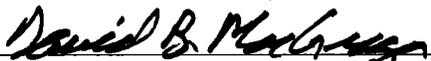
(a) That the Honorable Administrative Law Judge Susan D. Colwell recommend approval of, and the Pennsylvania Public Utility Commission approve, this Joint Petition for Settlement of All Issues including all terms and conditions thereof without modification; and,

(b) Subject to the terms and conditions set forth herein, that the Honorable Administrative Law Judge Susan D. Colwell recommend approval of, and the Pennsylvania Public Utility Commission approve, all of the transactions contemplated in the Joint Application; and

(c) Subject to the terms and conditions set forth herein, that the Honorable Administrative Law Judge Susan D. Colwell recommend granting of, and the Pennsylvania Public Utility Commission grant, all necessary authority, approvals and certificates of public convenience pursuant to Sections 1102(a)(3), 2101(a), 2210(a), and 2811(e) of the Public Utility Code, 66 Pa.C.S. §§ 1102(a)(3), 2101(a), 2210(a), and 2811(e), authorizing: (i) the transfer of all of PPL

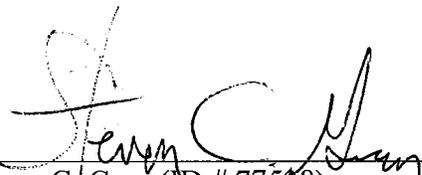
Corp. ownership interests in PPL IEC to Talen Energy, and certain post-closing transactions associated therewith; (ii) the transfer of certain property interests between PPL EU and subsidiaries of PPL Energy Supply in order to fully separate and define certain property rights among PPL EU and the PPL Energy Supply subsidiaries; (iii) to the extent required, any modifications or amendments to affiliated interest agreements among and between PPL EU, PPL Energy Supply and its subsidiaries, including PPL IEC; and (iv) all other approvals and certificates appropriate, customary, or necessary under the Public Utility Code to carry out the transactions contemplated in the Joint Application in a lawful manner.

Respectfully submitted,

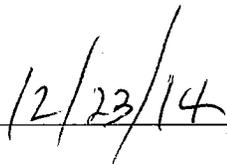
  
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*Counsel for the Office of Small Business Advocate*

  
Date

# **Appendix “A”**

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Joint Application of PPL Interstate Energy :  
Company and PPL Electric Utilities :  
Corporation for All of the Necessary : Docket Nos. A-2014-2435752  
Authority, Approvals, and Certificates of : A-2014-2435833  
Public Convenience (1) for the Transfer of :  
PPL Corporation's Ownership Interests in :  
PPL Interstate Energy Company to Talen :  
Energy Corporation, and Certain Post- :  
Closing Proposed Transactions Associated :  
therewith; (2) for the Transfer of Certain :  
Property Interests Between PPL Electric :  
Utilities Corporation and PPL Energy :  
Supply, LLC and its Subsidiaries in :  
Conjunction with the Transfer of All of the :  
Interests of PPL Energy Supply, LLC and :  
its Subsidiaries to Talen Energy :  
Corporation; (3) for any Modification or :  
Amendment of Associated Affiliated :  
Interest Agreements; and (4) for any Other :  
Approvals Necessary to Complete the :  
Contemplated Proposed Transactions :

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**STATEMENT OF PPL INTERSTATE ENERGY COMPANY AND  
PPL ELECTRIC UTILITIES CORPORATION IN SUPPORT OF THE  
JOINT PETITION FOR APPROVAL OF SETTLEMENT OF ALL ISSUES**

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Of Counsel:  
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Date: December 30, 2014

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## I. INTRODUCTION

PPL Interstate Energy Company (“PPL IEC”) and PPL Electric Utilities Corporation (“PPL EU”) (hereinafter, PPL IEC and PPL EU are collectively referred to as the “Applicants”), hereby file this Statement in Support of the Joint Petition for Approval of Settlement of All Issues (“Settlement”) in the above-captioned Joint Application proceeding requesting all necessary authority, approvals and certificates of public convenience from the Pennsylvania Public Utility Commission (“Commission”) to carry out the transactions contemplated in the Joint Application in a lawful manner (hereinafter, collectively the “Proposed Transaction”). (See Joint Applicants’ Exhibit No. 1)

PPL IEC is a corporation organized and existing under the laws of the State of Delaware. PPL IEC is a wholly owned direct subsidiary of PPL Generation, LLC (“PPL Generation”), which in turn is a wholly owned direct subsidiary of PPL Energy Supply, LLC (“PPL Energy Supply”).<sup>1</sup> PPL Energy Supply is a wholly owned direct subsidiary of PPL Energy Funding Corporation, which in turn is a wholly owned direct subsidiary of PPL Corporation (“PPL Corp.”). (Joint Applicants’ Statement No. 3, p. 3) PPL IEC is a public utility under the Public Utility Code providing transportation of oil and natural gas to electric generating stations pursuant to certificates of public convenience granted by the Commission. PPL IEC currently owns and operates two pipelines that deliver fuel to two generating plants owned and operated

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<sup>1</sup> On April 13, 2000, the Commission entered an order approving the transfer of PPL IEC from PPL Corp. to PPL Generation. See *Joint Application of PP&L, Inc. (PPL), now known as PPL Electric Utilities Corporation d/b/a PPL Utilities Corporation, and PPL Generation, LLC for approval of the transfer by PPL of all the outstanding stock of Interstate Energy Company now known as PPL Interstate Energy Company to PPL Generation, LLC*, Docket Nos. A-110500 F0295 and A-140200 F5000 (Order entered Apr. 13, 2000).

by subsidiaries of PPL Energy Supply in Lower Mount Bethel Township, Northampton County, Pennsylvania. (Joint Applicants' Statement No. 3, pp. 3-5)

PPL EU is a corporation organized and existing under the laws of the Commonwealth of Pennsylvania. PPL EU is a wholly owned direct subsidiary of PPL Corp. PPL EU is a "public utility," an "electric distribution company" and a "default service provider" as defined in Sections 102 and 2803 of the Public Utility Code, 66 Pa.C.S. §§ 102, 2803. PPL EU furnishes electric distribution, transmission and default supply services to approximately 1.4 million customers throughout its certificated service territory, which includes all or portions of twenty-nine counties and encompasses approximately 10,000 square miles in eastern and central Pennsylvania. (Joint Applicants' Statement No. 2, p. 4)

PPL Corp. intends to spin-off its deregulated electric generation and retail electric and gas supply business lines to the shareholders of PPL Corp. and then combine them with the competitive power generation business lines of Raven Power Holdings LLC ("Raven"), C/R Energy Jade, LLC ("Jade"), and Sapphire Power Holdings LLC ("Sapphire" and together with Raven and Jade hereinafter collectively referred to as the "RJS Entities") to form Talen Energy. (Joint Applicants' Statement No. 2, pp. 6-7) As of the closing of the Proposed Transaction, the shareholders of PPL Corp. will own 65% of the outstanding shares of common stock of Talen Energy. Riverstone Holdings LLC ("Riverstone"),<sup>2</sup> through either the RJS Entities or an existing

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<sup>2</sup> Riverstone is a limited liability company organized and existing under the laws of the State of Delaware. Riverstone is an energy and power-focused private investment firm founded in 2000. Riverstone conducts buyout and growth capital investments in the exploration and production, midstream, oilfield services, power, and renewable sectors of the energy industry. As of June 30, 2014, Riverstone has committed approximately \$26.0 billion to 108 investments in North America, Latin America, Europe, Africa, and Asia. Riverstone ultimately controls the RJS Entities whose competitive generation assets will be contributed to form Talen Energy. (Joint Applicants' Statement No. 1, pp. 6-7)

or newly formed holding company that will be wholly owned by the RJS Entities and controlled by Raven (the “RJS SPE”), will control 35% of the outstanding shares of Talen Energy.

As part of the Proposed Transaction, PPL Corp.’s indirect ownership interest in PPL IEC, which holds a certificate of public convenience to transport oil and natural gas only to generating facilities, will be transferred to Talen Energy. Also, certain property rights for PPL EU’s existing electric substation, transmission, and distribution facilities will be reaffirmed through new agreements as part of the Proposed Transaction. The Proposed Transaction also involves certain intercompany agreements between PPL Energy Supply subsidiaries and PPL EU or PPL IEC. Finally, in the Joint Application and supporting testimony, the Applicants seek certain findings from the Commission regarding: (1) the acquisition by the RJS Entities (or the RJS SPE) of 35% of the shares of common stock of Talen Energy, of which PPL IEC will be an indirect, wholly owned subsidiary upon the closing of the Proposed Transaction; (2) the anticipated future sell-down of the shares of Talen Energy common stock held by the RJS Entities (or the RJS SPE) to less than a combined 20% of the outstanding shares of Talen Energy’s common stock as part of Riverstone’s ordinary course management of its private equity portfolio interests; and (3) potential future internal reorganizations that may occur from time to time within Riverstone’s corporate structure as part of Riverstone’s ordinary course management of its private equity portfolio interests.

The Office of Small Business Advocate (“OSBA”) was the only active party to protest the transactions contemplated in the Joint Application. In its protest, the OSBA questioned the Applicants’ requested findings by the Commission regarding the acquisition by the RJS Entities (or the RJS SPE) of 35% of the shares of common stock of Talen Energy, the anticipated future sell-down of the shares of Talen Energy common stock to less than a combined 20% of the

outstanding shares of Talen Energy's common stock, and the potential future internal reorganizations that may occur from time to time within Riverstone's corporate structure. (Settlement ¶ 17) No other parties raised any issues, concerns, questions, or objections to the transactions contemplated in the Joint Application.

As a result of settlement discussions, the Applicants and the OSBA (hereinafter, the Applicants and OSBA are collectively referred to as "Signatory Parties") reached a settlement that resolved all of the issues and concerns raised by the OSBA. The other active parties have all indicated that they have no objection to the Settlement. Concurrent with their respective Statements in Support, the Signatory Parties filed the Settlement.

The Applicants herein submit this Statement in Support of the Proposed Transaction as modified and subject to the terms and conditions of the Settlement. Together with this Statement in Support, the Applicants also offer Proposed Findings of Fact, Proposed Conclusions of Law, and Proposed Ordering Paragraphs, which are attached to this Statement in Support as Attachments 1 through 3, respectively.

As explained below, the Proposed Transaction described in the Joint Application and supporting testimony, subject to the terms and conditions contained in the Settlement, will affirmatively promote the public interest in a substantial way, as required by *City of York v. Pa. PUC*, 449 Pa. 136, 295 A.2d 825 (1972). If approved, the Proposed Transaction, as modified by the terms of the Settlement, will resolve all of the issues raised by the active parties in this proceeding. Given the diverse interests of the Signatory Parties and the active role they have taken in this proceeding, the fact that they have resolved their respective issues in this proceeding, in and of itself, provides strong evidence that the Settlement is reasonable and in the public interest. Further, the Signatory Parties in this proceeding, and their counsel, have

considerable experience in acquisition proceedings. Their knowledge, experience, and ability to evaluate the strengths and weaknesses of their litigation positions provided a strong base upon which to build a consensus in this proceeding on the settled issues.

The Proposed Transaction, as modified by the terms of the Settlement, reflects a carefully balanced compromise of the interests of the Applicants, their customers, and the OSBA. For the reasons explained below, the Proposed Transaction, as modified by the Settlement, is in the public interest and should be approved. Therefore, the Joint Applicants respectfully request that the Honorable Administrative Law Judge Susan D. Colwell (“ALJ”) recommend that the Commission approve, and that the Commission approve, the transactions contemplated in the Joint Application subject to the terms and conditions contained in the Settlement, without modification. The Joint Applicants submit this Statement in Support to explain the numerous reasons that support these conclusions.

## **II. PROCEDURAL HISTORY**

On July 30, 2014, the Applicants filed the above-referenced Joint Application with the Commission. (Joint Applicants’ Exhibit No. 1) The following Appendices, containing additional information in support of the Proposed Transaction, are attached to the Joint Application:

- Appendix A – Separation Agreement [**HIGHLY CONFIDENTIAL treatment is required for the Separation Agreement Schedules (ALL FILED UNDER SEAL)**]
- Appendix B – Proposed Transaction Agreement [**HIGHLY CONFIDENTIAL treatment is required for the Parent Disclosure Letter and RJS Disclosure Letter (ALL FILED UNDER SEAL)**]
- Appendix C – Employee Matters Agreement
- Appendix D – Organizational chart showing PPL Corp. and its relevant domestic subsidiaries prior to the closing of the Proposed Transaction (June 1, 2014)

- Appendix E – Organizational chart showing Riverstone, the RJS Entities and its relevant affiliates prior to the closing of the Proposed Transaction
- Appendix F – Organizational chart showing PPL Corp. and its first-tier domestic subsidiaries following the closing of the Proposed Transaction
- Appendix G – Organizational chart showing Riverstone, the RJS Entities and relevant affiliates following the closing of the Proposed Transaction
- Appendix H – List of properties owned by PPL Energy Supply and/or its subsidiaries that currently are encumbered by PPL EU transmission rights-of-way
- Appendix I – List of properties owned by PPL Energy Supply and/or its subsidiaries that currently are encumbered by PPL EU distribution rights-of-way
- Appendix J – List of properties owned by PPL Energy Supply and/or its subsidiaries at which PPL EU substation facilities are located
- Appendix K – List of miscellaneous properties and interests owned by PPL Energy Supply and/or its subsidiaries that currently are used by PPL EU
- Appendix L – List of miscellaneous properties and interests owned by PPL EU that currently are used by PPL Energy Supply and/or its subsidiaries
- Appendix M – List of certain of the intercompany affiliate agreements with PPL EU and PPL IEC that will remain in place unchanged after the closing of the Proposed Transaction
- Appendix N – List of intercompany affiliate agreements that will remain in place unchanged after the closing of the Proposed Transaction, but PPL Energy Supply and its subsidiaries will no longer be parties
- Appendix O – List of interconnection agreements between PPL Energy Supply and its subsidiaries and PPL EU

(See Joint Applicants' Exhibit No. 1, Appendices A through O)

By Secretarial Letter dated August 5, 2014, the Applicants were directed to publish notice of the Joint Application in newspapers having general circulation in the areas involved, and to file proof of publication with the Commission on or before September 5, 2014. The notice was published on August 11, 12 and 13, 2014. On August 29, 2014, the Applicants filed Affidavits for Proof of Publication.

On August 16, 2014, notice of the Joint Application was published in the *Pennsylvania Bulletin*, 44 Pa.B. 5547. On August 25, 2014, a Hearing Notice was issued scheduling an Initial Prehearing Conference on September 18, 2014, at 1:30 p.m. in Hearing Room 1, Plaza Level, Commonwealth Keystone Building, 400 North Street, Harrisburg, PA 17120. On August 29, 2014, the ALJ issued a Prehearing Order describing the requirements for interested parties to participate in this proceeding and directing parties to file Prehearing Conference Memoranda.

On August 27, 2014, the Applicants served the following written direct testimony in support of the Joint Application: Joint Applicants' Statement No. 1, the Direct Testimony of Jeremy R. McGuire; Joint Applicants' Statement No. 2, the Direct Testimony of Dennis A. Urban, Jr.; Joint Applicants' Statement No. 3, the Direct Testimony of Drew D. Cummings; and Joint Applicants' Statement No. 4, the Direct Testimony of Marc A. Jackson, including Joint Applicants' Exhibit MAJ-1. Because the Signatory Parties reached a settlement, no other parties served testimony or exhibits in this proceeding.

Pursuant to the notice published in the *Pennsylvania Bulletin* and the August 29, Prehearing Order, protests and petitions to intervene were required to be filed on or before September 5, 2014. Timely notices of appearance and/or petitions to intervene were filed by the Office of Consumer Advocate ("OCA"), International Brotherhood of Electrical Workers, Local 1600 ("IBEW"), and Allegheny Electric Cooperative, Inc. ("AEC"). The only timely protest filed was by the OSBA.

A prehearing conference was held as scheduled on September 18, 2014. The timely petitions to intervene were unopposed and granted in the Second Prehearing Order dated September 22, 2014. A litigation schedule was established at the prehearing conference and adopted in the Second Prehearing Order.

On September 23, 2014, the Applicants filed a Motion for Protective Order. No active parties objected to the Motion, and the Protective Order was issued September 24, 2014.

On September 25, 2014, Monitoring Analytics, LLC acting as the Independent Market Monitor for PJM Interconnection, L.L.C. ("Market Monitor") filed Comments and Motion to Intervene Out of Time. On October 7, 2014, the Applicants filed an Answer and Objection to the Market Monitor's Comments and Motion to Intervene Out of Time. On October 17, 2014, the ALJ issued an Initial Decision denying Market Monitor's Motion to Intervene Out of Time, and striking Market Monitor's Comments from the record. No exceptions to the Initial Decision were filed. In an order issued December 8, 2014, the Initial Decision became final without further Commission action.

On October 15, 2014, AEC filed a Petition for Leave to Withdraw its Petition to Intervene. No party objected to AEC's Petition. On November 21, 2014, the ALJ issued an order granting AEC's Petition and removed AEC as a party from the service list.

As noted above, the OSBA was the only active party to protest the transactions contemplated in the Joint Application. In its protest, the OSBA questioned: (i) the Applicants' request for a finding by the Commission that the RJS Entities (or RJS SPE) will not have a controlling interest in Talen Energy; (ii) the Applicants' alternative request for preapproval of the RJS Entities' (or RJS SPE's) anticipated future sell-down of their shares in Talen Energy below 20% of Talen Energy's outstanding common stock; and (iii) the Applicants' alternative request for preapproval of internal restructurings that may occur from time to time within Riverstone's corporate structure.

The active parties engaged in discovery and settlement discussions throughout the proceeding. As a result of settlement discussions, the Applicants and the OSBA reached a

settlement in principle prior to the November 21, 2014 due date for non-Applicant parties' direct testimony. The settlement in principle resolved all of the issues and concerns raised by the OSBA, and the remaining active parties all indicated that they have no objection to the settlement in principle.

On November 20, 2014, the active parties advised the ALJ of the settlement in principle and requested that the procedural schedule be suspended. On November 21, 2014, the ALJ suspended the procedural schedule.

Shortly after the filing of the Settlement, the Applicants shall serve updates to certain Appendices H, J, L, M, O to the Joint Application. (See Joint Applicants' Exhibit No. 1, Appendix H (Revised), Appendix J (Revised), Appendix L (Revised), Appendix M (Revised), Appendix N (Revised), and Appendix O (Revised)). Shortly after the filing of the Settlement, the Signatory Parties shall also file a Joint Stipulation for Admission of Evidence, jointly stipulating to the authenticity of and admission into the evidentiary record in this matter of the following:

- (a) Joint Applicants' Exhibit No. 1 – “Joint Application of PPL Interstate Energy Company and PPL Electric Utilities Corporation for All Necessary Authority, Approvals, and Certificates of Public Convenience (1) for the Transfer of PPL Corporation's Ownership Interests in PPL Interstate Energy Company to Talen Energy Corporation, and Certain Post-closing Proposed Transactions Associated therewith; (2) for the Transfer of Certain Property Interests Between PPL Electric Utilities Corporation and PPL Energy Supply, LLC and its Subsidiaries in Conjunction with the Transfer of All of the Interests of PPL Energy Supply, LLC and its Subsidiaries to Talen Energy Corporation; (3) for any Modification or Amendment of Associated Affiliated Interest Agreements; and (4) for any Other Approvals Necessary to Complete the Contemplated Proposed Transactions.”
- (b) Joint Applicants' Exhibit No. 1, Appendix A – Separation Agreement [**HIGHLY CONFIDENTIAL treatment is required for the Separation Agreement Schedules (ALL FILED UNDER SEAL)**]
- (c) Joint Applicants' Exhibit No. 1, Appendix B – Proposed Transaction Agreement [**HIGHLY CONFIDENTIAL treatment is required for the Parent Disclosure Letter and RJS Disclosure Letter (ALL FILED UNDER SEAL)**]

- (d) Joint Applicants' Exhibit No. 1, Appendix C – Employee Matters Agreement
- (e) Joint Applicants' Exhibit No. 1, Appendix D – Organizational chart showing PPL Corp. and its relevant domestic subsidiaries prior to the closing of the Proposed Transaction (June 1, 2014)
- (f) Joint Applicants' Exhibit No. 1, Appendix E – Organizational chart showing Riverstone, the RJS Entities and its relevant affiliates prior to the closing of the Proposed Transaction
- (g) Joint Applicants' Exhibit No. 1, Appendix F – Organizational chart showing PPL Corp. and its first-tier domestic subsidiaries following the closing of the Proposed Transaction
- (h) Joint Applicants' Exhibit No. 1, Appendix G – Organizational chart showing Riverstone, the RJS Entities and relevant affiliates following the closing of the Proposed Transaction
- (i) Joint Applicants' Exhibit No. 1, Appendix H (REVISED) – List of properties owned by PPL Energy Supply and/or its subsidiaries that currently are encumbered by PPL EU transmission rights-of-way
- (j) Joint Applicants' Exhibit No. 1, Appendix I – List of properties owned by PPL Energy Supply and/or its subsidiaries that currently are encumbered by PPL EU distribution rights-of-way
- (k) Joint Applicants' Exhibit No. 1, Appendix J (REVISED) – List of properties owned by PPL Energy Supply and/or its subsidiaries at which PPL EU substation facilities are located
- (l) Joint Applicants' Exhibit No. 1, Appendix K – List of miscellaneous properties and interests owned by PPL Energy Supply and/or its subsidiaries that currently are used by PPL EU
- (m) Joint Applicants' Exhibit No. 1, Appendix L (REVISED) – List of miscellaneous properties and interests owned by PPL EU that currently are used by PPL Energy Supply and/or its subsidiaries
- (n) Joint Applicants' Exhibit No. 1, Appendix M (REVISED) – List of certain of the intercompany affiliate agreements with PPL EU and PPL IEC that will remain in place unchanged after closing of the Proposed Transaction
- (o) Joint Applicants' Exhibit No. 1, Appendix N (REVISED) – List of intercompany affiliate agreements that will remain in place unchanged after closing, but PPL Energy Supply and its subsidiaries will no longer be parties
- (p) Joint Applicants' Exhibit No. 1, Appendix O (REVISED) – List of interconnection agreements between PPL Energy Supply and its subsidiaries and

PPL EU

- (q) Joint Applicants' Statement No. 1, Direct Testimony of Jeremy R. McGuire
- (r) Joint Applicants' Statement No. 2, Direct Testimony of Dennis A. Urban, Jr.
- (s) Joint Applicants' Statement No. 3, Direct Testimony of Drew D. Cummings
- (t) Joint Applicants' Statement No. 4, Direct Testimony of Marc A. Jackson, including Exhibit MAJ-1.

Together with the Joint Stipulation for Admission of Evidence, two copies of the foregoing filings and exhibits, along with verifications from the applicable sponsoring witness, shall be filed with the Commission's Secretary for inclusion in the official case record upon approval of the Joint Stipulation for Admission of Evidence.

Concurrent with their respective Statements in Support, the Signatory Parties filed the Settlement. The Applicants herein submit this Statement in Support of the Proposed Transaction as modified and subject to the terms and conditions of the Settlement.

### **III. THE COMMISSION POLICY FAVORS SETTLEMENT**

Commission policy promotes settlements. *See* 52 Pa. Code § 5.231. Settlements lessen the time and expense that parties must expend litigating a case and, at the same time, conserve precious administrative resources. The Commission has indicated that settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding. *See* 52 Pa. Code § 69.401. In order to accept a settlement, the Commission must first determine that the proposed terms and conditions are in the public interest. *Pa. PUC v. York Water Co.*, Docket No. R-00049165 (Oct. 4, 2004); *Pa. PUC v. C.S. Water and Sewer Assocs.*, 74 Pa. P.U.C. 767 (1991). For the following reasons, the Proposed Transaction, as modified by the Settlement, is just, reasonable, and in the public interest and, therefore, should be approved without modification.

#### IV. THE SETTLEMENT OF THE PROPOSED TRANSACTION IS IN THE PUBLIC INTEREST

PPL Corp. and the RJS Entities have agreed to combine their competitive power generation business lines into Talen Energy. Under the terms of the relevant agreements, at the closing of the Proposed Transaction, PPL Corp. will spin off its deregulated electric generation and retail electric and gas supply business lines in PPL Energy Supply (including PPL EnergyPlus, LLC and PPL Generation, LLC (“PPL Generation”), which owns PPL IEC) to the shareowners of PPL Corp. and then immediately combine that business with the competitive generation assets owned by subsidiaries of the RJS Entities, which are ultimately controlled by Riverstone, to form Talen Energy.<sup>3</sup> (Joint Applicants’ Statement No. 1, pp. 9-10) After the closing of the Proposed Transaction, Talen Energy will become a new stand-alone, publicly traded Independent Power Producer and, at such time, is expected to be among the largest competitive power generators in the United States. (Joint Applicants’ Statement No. 1, pp. 5-6)

The steps contemplated in the Proposed Transaction are summarized below:

- a. PPL Corp. creates a new subsidiary, Talen Energy Holdings, Inc. (“Talen Holdings”); Talen Holdings creates a new subsidiary, Talen Energy, and Talen Energy creates a new subsidiary, Talen Energy Merger Sub, Inc. (“Merger Sub”).<sup>4</sup>
- b. PPL Energy Funding Corporation, which is a direct subsidiary of PPL Corp. and the direct parent of PPL Energy Supply, distributes 100% of the outstanding equity securities of PPL Energy Supply to PPL Corp.

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<sup>3</sup> The Separation Agreement sets forth the terms and conditions for the separation of PPL Corp.’s regulated electric utility business from PPL Corp.’s deregulated electric generation and retail electric and gas supply businesses and provides for the spinoff of the deregulated generation and retail electric and gas supply businesses to PPL Corp.’s shareowners. (See Joint Applicants’ Exhibit No. 1, Appendix A [**HIGHLY CONFIDENTIAL treatment is required for the Separation Agreement Schedules (ALL FILED UNDER SEAL)**])

<sup>4</sup> These steps have already been implemented.

- c. PPL Corp. contributes 100% of the outstanding equity securities of PPL Energy Supply to Talen Holdings, resulting in PPL Energy Supply becoming a subsidiary of Talen Holdings.
- d. PPL Corp. distributes the Talen Holdings<sup>5</sup> common stock pro rata to its shareowners who are shareowners as of the record date for the spinoff.<sup>6</sup>
- e. Talen Holdings merges with Merger Sub, with Talen Holdings surviving as a wholly owned subsidiary of Talen Energy and Talen Holdings common stock converted into common stock of Talen Energy.
- f. The RJS Entities contribute 100% of the interests in a holding company that indirectly owns the competitive power generation business of the RJS Entities (“RJS HoldCo”) to Talen Energy. In exchange, the RJS Entities, or RJS SPE receive(s) 35% of the Talen Energy common stock, in the aggregate.
- g. Talen Energy contributes the equity securities of RJS HoldCo to Talen Holdings and Talen Holdings, in turn, either (i) contributes the equity securities of RJS HoldCo to PPL Energy Supply, and/or (ii) causes RJS HoldCo to be merged with and into PPL Energy Supply, with PPL Energy Supply as the surviving entity in the merger.

(Joint Applicants’ Statement No. 1, pp. 10-11)

Upon closing of Proposed Transaction, PPL Corp.’s public shareowners will own 65% of the shares of Talen Energy’s common stock. The remaining 35% interest in Talen Energy’s common stock will either be held by the RJS Entities collectively or by the RJS SPE. If the shares in Talen Energy are held by the RJS SPE, then the RJS SPE will own 35% of the shares of Talen Energy’s common stock. None of the RJS Entities will individually hold, directly or indirectly, an interest of 20% or more in Talen Energy. (Joint Applicants’ Statement No. 1, p. 5)

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<sup>5</sup> The shareowners do not ultimately receive shares of Talen Holdings, but rather the shares of Talen Holdings are converted into common shares of Talen Energy as a result of a reorganizational merger transaction immediately following the spinoff.

<sup>6</sup> PPL Corp.’s shareowners will receive a pro-rata distribution of shares Talen Energy common stock at closing based on the number of shares of PPL Corp. common stock owned as of the spinoff record date. The spinoff will have no effect on their ownership of PPL Corp. common stock and there will be no change in the number of shares of PPL Corp. common stock outstanding as a result of the Proposed Transaction.

In the Joint Application, the Applicants seek certain limited approvals from the Commission associated with the transfer of PPL Corp.'s deregulated electric generation and retail electric and gas supply business lines to Talen Energy. Although the "spinoff" of PPL Corp.'s deregulated electric generation and retail electric and gas supply business lines from its regulated electric utility business lines does not require Commission approval, certain ancillary transfers necessary and appropriate to this fundamental transaction may require Commission approval, including: (1) the transfer of PPL Corp.'s indirect ownership interests in PPL IEC, which holds a certificate of public convenience to transport oil and natural gas only to generating facilities; (2) the acquisition by Riverstone, through the RJS Entities, of an indirect controlling interest in PPL IEC; (3) the transfer/clarification of property rights between PPL Energy Supply and/or its subsidiaries and PPL EU; (4) the termination or revision of intercompany agreements between PPL Energy Supply and/or its subsidiaries and PPL EU or PPL IEC; and (5) certain post-closing transactions contemplated in the ordinary course of Riverstone's management of its portfolio investments.

For the reasons explained below, the Applicants submit that all criteria necessary for approval of the Proposed Transaction pursuant to the Public Utility Code have been met, and that the Proposed Transaction, as modified by the Settlement, will benefit the Applicants' customers, employees, and the communities they serve.

**A. TRANSFER OF PPL CORP.'S INDIRECT OWNERSHIP INTERESTS IN PPL IEC TO TALEN ENERGY IS IN THE PUBLIC INTEREST**

As part of the Proposed Transaction, PPL Corp.'s indirect ownership interests in PPL IEC, which holds a certificate of public convenience to transport oil and natural gas only to generating facilities, will be transferred to Talen Energy. Presently, all of the common stock of PPL IEC is owned by PPL Generation, a direct wholly owned subsidiary of PPL Energy Supply,

which, in turn, is currently an indirect wholly owned subsidiary of PPL Corp. As a result of the Proposed Transaction, indirect ownership of PPL IEC will be transferred from PPL Corp. to Talen Energy. Therefore, upon closing of the Proposed Transaction, PPL IEC will become a wholly owned, indirect subsidiary of Talen Energy. (Joint Applicants' Statement No. 3, pp. 5-6) The Applicants are seeking the Commission's approval pursuant to Section 1102(a)(3) of the Public Utility Code for the transfer of this indirect ownership interest in PPL IEC from PPL Corp. to Talen Energy.

The transfer of PPL IEC as part of the Proposed Transaction will provide a public benefit. As explained above, PPL IEC is a natural gas distribution company certificated by the Commission to provide service to electric generating stations and currently serves only the Lower Mount Bethel and Martins Creek generating plants owned and operated by indirect subsidiaries of PPL Energy Supply. The PPL IEC assets are closely aligned with the generation portion of the business of PPL Energy Supply and its subsidiaries and are not aligned in any material way with the regulated electric transmission and distribution businesses of PPL EU. It clearly is in the public interest for the ownership of PPL IEC to be indirectly transferred as part of the Proposed Transaction. (Joint Applicants' Statement No. 3, p. 9)

For these reasons, the Applicants request that, pursuant to Section 1102(a)(3), the Commission approve the transfer of the indirect ownership interest in PPL IEC from PPL Corp. to Talen Energy, and that the Commission issue an appropriate Certificate of Public Convenience authorizing the same.

**B. ACQUISITION BY RIVERSTONE OF A 35% INDIRECT INTEREST IN PPL IEC IS IN THE PUBLIC INTEREST**

As explained above, the RJS Entities or the RJS SPE, which are controlled by Riverstone, will own 35% of shares of Talen Energy's common stock upon closing of the Proposed

Transaction. Talen Energy will, in turn, indirectly own 100% of the shares of PPL IEC. Both the RJS Entities and the RJS SPE will ultimately be controlled by Riverstone. (Joint Applicants' Statement No. 1, pp. 7-9) Riverstone therefore will indirectly control, through the RJS Entities or the RJS SPE, 35% of the shares of Talen Energy's common stock. (Joint Applicants' Statement No. 1, pp. 17-18)

In direct testimony, the Applicants sought a finding from the Commission that the RJS Entities or the RJS SPE, and indirectly Riverstone, will not have a controlling interest in Talen Energy, and thereby PPL IEC, upon closing of the Proposed Transaction.<sup>7</sup> (Joint Applicants' Statement No. 1, pp. 6-7, 18-21) In its protest, the OSBA questioned the Applicants' request for a finding by the Commission that the RJS Entities or RJS SPE, and indirectly Riverstone, will not have a controlling interest in Talen Energy.

In the Settlement, the Signatory Parties have acknowledged that, immediately following the closing of the proposed transaction, Riverstone will indirectly control, through the RJS Entities or the RJS SPE, 35% of the shares of Talen Energy's common stock, and that Talen Energy will indirectly own 100% of PPL IEC. (Settlement ¶ 28) In the Settlement, the Signatory Parties have stipulated that the Commission's Statement of Policy on "Utility Stock Transfer Under 66 Pa.C.S. § 1102(a)(3)" ("Stock Transfer Policy"), 52 Pa. Code § 69.901,

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<sup>7</sup> Alternatively, if the Commission were to find that the RJS Entities or the RJS SPE, and indirectly Riverstone, have a controlling interest, then the Applicants requested, as part of the final order entered in this proceeding, approval of the acquisition by the RJS Entities or the RJS SPE, and indirectly by Riverstone, of 35% of the common stock of Talen Energy, which will indirectly own 100% of PPL IEC upon the closing of the Proposed Transaction. (Joint Applicants' Statement No. 1, pp. 6-7)

applies to the Proposed Transaction.<sup>8</sup> (Settlement ¶ 25) Subject to the terms and conditions of the Settlement, the Signatory Parties have agreed that Riverstone's acquisition of a 35% indirect ownership interest in PPL IEC, through the RJS Entities or the RJS SPE, is in the public interest and should be approved. (Settlement ¶ 29)

The Applicants' submit that these Settlement terms are a reasonable compromise of competing interests that will lessen the time and expense that parties must expend litigating this case and, at the same time, conserve precious administrative resources. Further, as explained above, it is clearly in the public interest for the ownership of PPL IEC to be indirectly transferred from PPL Corp. to Talen Energy, in which Riverstone will hold a 35% indirect ownership interest. (*See* Section IV.A, *supra*) Finally, as explained below, Riverstone, through Talen Energy and PPL IEC, will have the requisite technical, legal and financial fitness to own and operate PPL IEC. (*See* Section IV.G, *infra*)

For these reasons, the Applicants request that, pursuant to Section 1102(a)(3), the Commission approve Riverstone's acquisition of a 35% indirect interest in PPL IEC, through the RJS Entities or the RJS SPE, and that the Commission issue an appropriate Certificate of Public Convenience authorizing the same.

### **C. THE TRANSFER OR CLARIFICATION OF PROPERTY INTERESTS IS IN THE PUBLIC INTEREST**

Certain existing property interests that are used or useful in providing intrastate public utility service by PPL EU will be reaffirmed or clarified as part of the Proposed Transaction in order to facilitate the separation of PPL Corp.'s electric utility and competitive generation businesses. The proposed transfers/clarifications fall into five broad categories: (a) properties

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<sup>8</sup> The Parties further acknowledged in the Settlement that the Stock Transfer Policy does not establish a binding norm or obligation, and that the Commission has discretion on whether and how to apply the Stock Transfer Policy to a specific transaction. (Settlement ¶ 25)

owned by PPL Energy Supply and/or its subsidiaries that currently are encumbered by PPL EU transmission rights-of-way; (b) properties owned by PPL Energy Supply and/or its subsidiaries that currently are encumbered by PPL EU distribution rights-of-way; (c) properties owned by PPL Energy Supply and/or its subsidiaries at which PPL EU substation facilities currently are located; (d) miscellaneous properties and interests owned by PPL Energy Supply and/or its subsidiaries that currently are used by PPL EU; and (e) miscellaneous properties and interests owned by PPL EU that currently are used by PPL Energy Supply and/or its subsidiaries. As explained below, the transfer/clarification of these property interests is necessary to facilitate the separation of PPL Corp.'s electric utility and competitive generation businesses.

**1. Transmission Rights-of-Way to be Transferred/Clarified**

Currently, PPL EU transmission rights-of-way encumber tracts of land owned by the following subsidiaries of PPL Energy Supply: PPL Holtwood, LLC; PPL Brunner Island, LLC; PPL Montour, LLC; PPL Martins Creek, LLC; PPL Susquehanna, LLC; and PPL Generation, LLC. (Joint Applicants' Exhibit No. 1, Appendix H (REVISED)) Upon closing of the Proposed Transaction, PPL Corp.'s indirect ownership of the deregulated electric generation plants and the associated tracts of land will be transferred to Talen Energy. (Joint Applicants' Statement No. 4, p. 7)

In order to ensure that PPL EU has sufficient rights to maintain and operate its existing transmission facilities across these plant properties following the closing of the Proposed Transaction, appropriate agreements will be executed and recorded, if necessary, to confirm the rights in respect of the existing transmission rights-of-way. (Joint Applicants' Statement No. 4, pp. 7-8; Joint Applicants' Exhibit MAJ-1) There will be no monetary or other consideration

provided by PPL EU in respect of these existing rights-of-way.<sup>9</sup> (Joint Applicants' Statement No. 4, p 8)

The reaffirmation of the existing transmission rights-of-way set forth in Joint Applicants' Exhibit No. 1, Appendix H (REVISED) will ensure that PPL EU is able to continue to provide safe, reliable, and continuous service to its customers. The reaffirmation of the existing transmission rights-of-way also will ensure that the electric generation plant facilities remain interconnected to the electric grid, and that PPL EU has sufficient rights in the future to maintain and operate its transmission lines serving these plants. (Joint Applicants' Statement No. 4, p. 9) For these reasons, reaffirming the existing transmission rights-of-way that currently encumber properties owned by subsidiaries of PPL Energy Supply is in the public interest.

Because these agreements are simply memorializing existing rights and no consideration will be exchanged, the Applicants are seeking a finding by the Commission that Section 1102(a)(3) will not apply to these agreements. In the event that the Commission concludes that approval is nevertheless required with respect to these agreements, PPL EU requests that the Commission approve the reaffirmation of the existing transmission rights-of-way set forth in Joint Applicants' Exhibit No. 1, Appendix H (REVISED), pursuant to Section 1102(a)(3), and that the Commission issue an appropriate Certificate(s) of Public Convenience authorizing the same.

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<sup>9</sup> Approval under Section 1102(a)(3) of the Public Utility Code is not required for, among other things, transactions below the threshold amount of \$50,000 in the case of realty. 66 Pa.C.S. § 1102(a)(3)(ii). The reaffirmation of the existing transmission rights-of-way qualifies for this exclusion.

## 2. Distribution Rights-of-Way to be Transferred/Clarified

Currently, PPL EU transmission distribution rights-of-way encumber tracts of land owned by the following subsidiaries of PPL Energy Supply: PPL Holtwood, LLC; PPL Montour, LLC; PPL Susquehanna, LLC; and PPL Generation, LLC. (Joint Applicants' Exhibit No. 1, Appendix I) Upon closing of the Proposed Transaction, PPL Corp.'s indirect ownership of the deregulated electric generation plants and the associated tracts of land will be transferred to Talen Energy. (Joint Applicants' Statement No. 4, p. 10)

In order to ensure that PPL EU has sufficient rights to maintain and operate its existing distribution facilities across these plant properties following the closing of the Proposed Transaction, appropriate agreements will be executed and recorded, if necessary, to confirm the rights for the existing distribution rights-of-way. (Joint Applicants' Statement No. 4, p. 10; Joint Applicants' Exhibit MAJ-1) There will be no monetary or other consideration provided by PPL EU in respect these existing rights-of-way.<sup>10</sup> (Joint Applicants' Statement No. 4, pp. 10-11)

The reaffirmation of the existing distribution rights-of-way set forth in Joint Applicants' Exhibit No. 1, Appendix I will ensure that PPL EU is able to continue to provide safe, reliable, and continuous service to its customers. The reaffirmation of the existing distribution rights-of-way also will ensure that PPL EU has sufficient rights to maintain and operate its distribution lines that traverse the generating plant properties. (Joint Applicants' Statement No. 4, p. 11) For these reasons, reaffirming the existing distribution rights-of-way that currently encumber properties owned by subsidiaries of PPL Energy Supply is in the public interest.

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<sup>10</sup> See Footnote 9, *supra*. The reaffirmation of the existing distribution rights-of-way is below the monetary threshold requiring Commission approval under Section 1102(a)(3) of the Public Utility Code.

Because these agreements are simply memorializing existing rights and no consideration will be exchanged, the Applicants are seeking a finding by the Commission that Section 1102(a)(3) will not apply to these agreements. In the event that the Commission concludes that approval is nevertheless required with respect to these agreements, PPL EU requests that the Commission approve the reaffirmation of the existing distribution rights-of-way set forth in Joint Applicants' Exhibit No. 1, Appendix I, pursuant to Section 1102(a)(3), and that the Commission issue an appropriate Certificate(s) of Public Convenience authorizing the same.

### **3. Substation Facility Properties to be Transferred/Clarified**

Currently, the following PPL EU substation facilities are located on properties owned by subsidiaries of PPL Energy Supply: two PPL EU substation facilities are located on eight tracts of land owned by PPL Holtwood, LLC; one PPL EU substation is located on two tracts of land owned by PPL Brunner Island, LLC; two PPL EU substation facilities are located on three tracts of land owned by PPL Montour, LLC; two PPL EU substation facilities are located on two tracts of land owned by PPL Martins Creek, LLC; three PPL EU substation facilities are located on four tracts of land owned by PPL Susquehanna, LLC and Allegheny Electric Cooperative; one PPL EU substation is located on two tracts of land owned by PPL Generation, LLC; and one PPL EU substation is located on land owned by PPL IEC. (Joint Applicants' Statement No. 4, p. 12; Joint Applicants' Exhibit 1, Appendix J (REVISED)) Upon closing of the Proposed Transaction, PPL Corp.'s indirect ownership of the deregulated electric generation plants and the associated tracts of land will be transferred to Talen Energy. (Joint Applicants' Statement No. 4, p. 7)

In order to ensure that PPL EU has sufficient rights in the future to maintain, operate, and access its existing substations, which are necessary to provide electric service to the public, appropriate easements or deeds of transfer will be prepared and executed, upon or after closing of the Proposed Transaction, to memorialize existing rights or transfer property back to PPL EU.

(Joint Applicants' Statement No. 4, pp. 12-14) There will be no monetary or other consideration provided by PPL EU for the transfer or clarification of rights in respect of the existing PPL EU substation sites.<sup>11</sup> (Joint Applicants' Statement No. 4, p. 15)

The transfer or clarification of the property interests in respect of the existing PPL EU substation facilities set forth in Joint Applicants' Exhibit 1, Appendix J (REVISED) will ensure that PPL EU is able to continue to provide safe, reliable, and continuous service to its customers. The reaffirmation of the existing substation sites will ensure that PPL EU has sufficient rights in the future to maintain, operate, and access its existing substations, which are necessary to provide electric service to the public. (Joint Applicants' Statement No. 4, p. 16) For these reasons, reaffirming the existing substation sites that currently encumber properties owned by subsidiaries of PPL Energy Supply is in the public interest.

Because these agreements are simply transferring or clarifying existing rights and no consideration will be exchanged, the Applicants are seeking a finding by the Commission that Section 1102(a)(3) will not apply to these agreements. In the event that the Commission concludes that approval is nevertheless required with respect to these agreements, PPL EU requests that the Commission approve the reaffirmation of the existing substation sites set forth in Joint Applicants' Exhibit 1, Appendix J (REVISED), pursuant to Section 1102(a)(3), and that the Commission issue appropriate an Certificate(s) of Public Convenience authorizing the same.

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<sup>11</sup> See Footnote 9, *supra*. The transfer or clarification of the existing substation sites is below the monetary threshold requiring Commission approval under Section 1102(a)(3) of the Public Utility Code.

**4. Miscellaneous Properties and Interests owned by PPL Energy Supply and/or its Subsidiaries that Currently are used by PPL EU**

Certain miscellaneous properties and interests owned by PPL Energy Supply and/or its subsidiaries currently are used by PPL EU. These property interests include PPL EU's access/use of existing fiber-optic network cabling and other telecommunication equipment located on properties of PPL Energy Supply and/or its subsidiaries. In addition, there are control equipment houses located on property owned by PPL Energy Supply subsidiaries and currently utilized by both PPL EU and the applicable PPL Energy Supply subsidiaries. (Joint Applicants' Statement No. 4, pp. 16-17; Joint Applicants' Exhibit 1, Appendix K)

Upon or after closing of the Proposed Transaction, appropriate easements and/or license agreements will be executed to ensure that PPL EU's use of the fiber-optic network cabling and telecommunication equipment will continue consistent with past practices. Upon or after closing of the Proposed Transaction, easements and/or license agreements will be prepared and executed by the applicable PPL Energy Supply subsidiaries in favor of PPL EU to ensure the continued use of the control equipment houses and that such use by PPL EU is consistent with past practices. (Joint Applicants' Statement No. 4, p. 17)

The proposed easements and/or license agreements will ensure that PPL EU will have such property rights and access rights as are necessary to operate and maintain PPL EU's existing facilities so that PPL EU may continue to provide safe and reliable service to customers. (Joint Applicants' Statement No. 4, p. 19) For these reasons, reaffirming the rights and use of the existing fiber-optic network cabling, telecommunication equipment, and control equipment houses is in the public interest.

Because these easements and/or license agreements are simply reaffirming existing rights and uses, the Applicants are seeking a finding by the Commission that Section 1102(a)(3) will

not apply to these agreements. In the event that the Commission concludes that approval is nevertheless required with respect to these agreements, PPL EU requests that the Commission approve the reaffirmation of the existing rights and use of the existing fiber-optic network cabling, telecommunication equipment, and control equipment houses set forth in Joint Applicants' Exhibit 1, Appendix K, pursuant to Section 1102(a)(3), and that the Commission issue appropriate an Certificate(s) of Public Convenience authorizing the same.

**5. Miscellaneous Properties and Interests owned by PPL EU that Currently are used by PPL Energy Supply and/or its Subsidiaries.**

There are certain miscellaneous properties and interests owned by PPL EU that are currently used by PPL Energy Supply and/or its subsidiaries. These property interests include: (i) easements between PPL EU and PPL Martins Creek, LLC for combustion turbine generator facilities located on PPL EU property; (ii) an office space and records center owned by PPL EU but currently used by PPL Corp. subsidiaries, including PPL Energy Supply and its subsidiaries; (iii) license agreements for air monitoring equipment on PPL EU's property; and (iv) access/use by subsidiaries of PPL Energy Supply of existing fiber-optic network cabling and other telecommunication equipment located on PPL EU's property. A detailed list of the miscellaneous properties and interests owned by PPL EU that currently are used by PPL Energy Supply and/or its subsidiaries is provided in Appendix L (REVISED) to the Joint Application. (Joint Applicants' Statement No. 4, pp. 17-18; Joint Applicants' Exhibit 1, Appendix L (REVISED))

The easements between PPL EU and PPL Martins Creek, LLC for combustion turbine generator facilities located on PPL EU property, these easements will continue but will be updated to include customary and reasonable environmental indemnity language. (Joint Applicants' Statement No. 4, p. 18) The update and continuation of these easement agreements

will ensure that PPL Energy Supply and its subsidiaries will have all the property rights and access rights necessary to operate and maintain its combustion turbine generator facilities so that it may continue to provide safe and reliable service. (Joint Applicants' Statement No. 4, p. 19) Because the update and continuation of these easements agreements are simply reaffirming existing rights and uses, the Applicants are seeking a finding by the Commission that Section 1102(a)(3) will not apply to these agreements. In the event that the Commission concludes that approval is nevertheless required with respect to these agreements, PPL EU requests that the Commission approve the update and continuation of these easements agreements for combustion turbine generator facilities located on PPL EU property set forth in Joint Applicants' Exhibit 1, Appendix L (REVISED), pursuant to Section 1102(a)(3), and that the Commission issue appropriate an Certificate(s) of Public Convenience authorizing the same.

With respect to the office space and records center owned by PPL EU but currently used by PPL Corp. subsidiaries, the PPL Energy Supply and its subsidiaries will no longer use such office space or record center following the closing of the Proposed Transaction and, therefore, these agreements will be terminated. (Joint Applicants' Statement No. 4, p. 18) Because use of the office space and records center will cease upon closing of the Proposed Transaction, the Applicants are seeking a finding by the Commission that Section 1102(a)(3) will not apply to the termination of these agreements. In the event that the Commission concludes that approval is nevertheless required, PPL EU requests that the Commission approve the termination of the agreements for use by subsidiaries of PPL Energy Supply of the PPL EU office space or record center set forth in Joint Applicants' Exhibit 1, Appendix L (REVISED), pursuant to Section 1102(a)(3), and that the Commission issue appropriate an Certificate(s) of Public Convenience authorizing the same.

With respect to the license agreements for air monitoring equipment on PPL EU's property, it is anticipated that PPL Susquehanna's use of PPL EU's land for the required air monitoring stations will continue and be more permanently memorialized in an appropriate agreement. These agreements will permanently permit PPL Susquehanna's air monitoring stations, which are required by the Nuclear Regulatory Commission, and are located on PPL EU property. (Joint Applicants' Statement No. 4, p. 19) Because these agreements simply memorialize existing rights, the Applicants are seeking a finding by the Commission that Section 1102(a)(3) will not apply to these agreements. In the event that the Commission concludes that approval is nevertheless required with respect to these agreements, PPL EU requests that the Commission approve these agreements for PPL Susquehanna's air monitoring stations located on PPL EU property set forth in Joint Applicants' Exhibit 1, Appendix L (REVISED), pursuant to Section 1102(a)(3), and that the Commission issue an appropriate Certificate(s) of Public Convenience authorizing the same.

Finally with respect to access/use by subsidiaries of PPL Energy Supply of existing fiber-optic network cabling and other telecommunication equipment located on PPL EU's property, appropriate easements and/or license agreements will be executed to ensure that such use/access by PPL Energy Supply subsidiaries of the fiber-optic network cabling and telecommunication equipment will continue consistent with past practices. (Joint Applicants Exhibit No. 1, Appendix L (REVISED)) These easements and/or license agreements will ensure that PPL Energy Supply and its subsidiaries will have all the property rights and access rights necessary to operate and maintain their existing facilities so that they may continue to provide safe and reliable service to customers. (Joint Applicants' Statement No. 4, p. 19) Because these easements and/or license agreements are simply reaffirming existing rights and uses, the

Applicants are seeking a finding by the Commission that Section 1102(a)(3) will not apply to these agreements. In the event that the Commission concludes that approval is nevertheless required with respect to these agreements, PPL EU requests that the Commission approve the reaffirmation of the existing rights and use of the existing fiber-optic network cabling and telecommunication equipment set forth in Joint Applicants' Exhibit 1, Appendix L (REVISED), pursuant to Section 1102(a)(3), and that the Commission issue appropriate an Certificate(s) of Public Convenience authorizing the same.

#### **D. STATUS OF INTERCOMPANY AGREEMENTS UPON CLOSING**

The Proposed Transaction also involves certain intercompany agreements between PPL Energy Supply subsidiaries and PPL EU or PPL IEC. These agreements fall into four general categories: (1) agreements that will remain in place after the closing of the Proposed Transaction, but PPL Energy Supply and its subsidiaries will no longer be affiliates of PPL EU (*see* Joint Applicants' Exhibit 1, Appendix M (REVISED)); (2) agreements that will remain in place after the closing of the Proposed Transaction, but relevant PPL Energy Supply subsidiaries will no longer be parties to the agreements (*see* Joint Applicants' Exhibit 1, Appendix N (REVISED)); (3) agreements between PPL IEC and PPL Energy Supply subsidiaries that will remain in place after the closing of the Proposed Transaction (*see* Joint Applicants' Exhibit 1, Appendix M (REVISED)); and (4) agreements that will terminate and be replaced at the closing of the Proposed Transaction (Joint Applicants' Exhibit 1, Appendix O (REVISED)). (Joint Applicants' Statement No. 2, pp. 8-12; Joint Applicants' Statement No. 3, pp. 6-7)

Under Section 2102 of the Public Utility Code, Commission approval is required before any affiliated interest contract can become effective. 66 Pa.C.S. § 2102(a). Section 2101(a) of the Public Utility Code defines an "affiliated interest" to include the following: "(1) Every corporation and person owning or holding directly or indirectly 5% or more of the voting

securities of such public utility; and (2) Every corporation and person in any chain of successive ownership of 5% or more of voting securities.” 66 Pa.C.S. § 2101(a)(1)(2). Under Section 2103 of the Public Utility Code, the Commission has continuing supervision and jurisdiction over affiliated interest contracts, including the “modification or amendment” of such contracts or agreements. 66 Pa.C.S. § 2103.<sup>12</sup>

With respect to the intercompany agreements that will remain in place unchanged after closing of the Proposed Transaction, as set forth in Joint Applicants’ Exhibit 1, Appendix M (REVISED), PPL Energy Supply and its subsidiaries will no longer be affiliates of PPL EU after closing of the Proposed Transaction. (Joint Applicants’ Statement No. 2, pp. 9, 12) Because PPL Energy Supply and its subsidiaries will no longer be affiliates of PPL EU after closing of the Proposed Transaction and there will be no modification to these existing agreements, PPL EU seeks a finding by the Commission that Chapter 21 will not apply to these continuing intercompany agreements.<sup>13</sup> However, to the extent that the Commission concludes that approval is required for these intercompany agreements that will remain in place unchanged after the closing of the Proposed Transaction, PPL EU requests such Commission approval pursuant to Chapter 21.

With respect to the agreements that will remain in place after closing of the Proposed Transaction but where the relevant PPL Energy Supply subsidiaries will no longer be parties to the agreements, as set forth in Joint Applicants’ Exhibit 1, Appendix N (REVISED), no

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<sup>12</sup> Sections 2102(b) and (c) of the Public Utility Code set forth the standard for Commission review of an affiliate interest agreement. *See* 66 Pa.C.S. § 2102(b), (c).

<sup>13</sup> In addition, with respect to the interconnection agreements that will remain in place after closing of the Proposed Transaction, these agreements are subject to FERC jurisdiction because they are agreements for the interconnection of generating facilities with the transmission facilities of PPL EU. (Joint Applicants’ Statement No. 2, p. 12)

substantive modification or amendment to these existing agreements will be made. Rather, the relevant PPL Energy Supply subsidiaries will simply be removed as parties to these agreements. (Joint Applicants' Statement No. 2, p. 10) Because the removal of PPL Energy Supply and its subsidiaries as parties to these agreements is not a modification or amendment of such agreements, PPL EU seeks a finding by the Commission that Chapter 21 does not apply to these intercompany agreements. However, to the extent that the Commission considers the removal of the PPL Energy Supply and its subsidiaries as parties to be modifications or amendments of these agreements, PPL EU requests approval of the changes to these agreements under Section 2103 of the Public Utility Code, 66 Pa.C.S. § 2103.

With respect to the agreements between PPL IEC and PPL Energy Supply subsidiaries that will remain in place after closing of the Proposed Transaction, PPL IEC will continue to be affiliated with PPL Energy Supply and its other subsidiaries post-closing. (Joint Applicants' Statement No. 3, p. 7) Because there will be no modification to these agreements set forth in Joint Applicants' Exhibit 1, Appendix M (REVISED), the Applicants submit that no further Commission approval is required. To the extent that the Commission concludes that approval is required, PPL IEC requests Commission approval pursuant to Section 2102 of the Public Utility Code, 66 Pa.C.S. § 2102(a).

With respect to the interconnection agreements set forth in Joint Applicants' Exhibit 1, Appendix O (REVISED) that will terminate at closing of the Proposed Transaction, such agreements will be replaced with Federal Energy Regulatory Commission ("FERC") jurisdictional *pro forma* interconnection agreements. These new agreements, however, are subject to FERC jurisdiction because they are agreements for the interconnection of generating facilities with the transmission facilities of PPL EU. Further, PPL Energy Supply subsidiaries

and PPL EU will no longer be affiliates upon closing of the Proposed Transaction. (Joint Applicants' Statement No. 2, pp. 11-12) For these reasons, PPL EU seeks a finding by the Commission that Chapter 21 of the Public Utility Code does not apply to these intercompany agreements. To the extent that the Commission concludes that approval is required, PPL EU requests Commission approval pursuant to Section 2102 of the Public Utility Code, 66 Pa.C.S. § 2102(a).

**E. THE SETTLEMENT OF CERTAIN FUTURE POST CLOSING TRANSACTIONS IS IN THE PUBLIC INTEREST**

**1. The Anticipated Future Sell Down of Riverstone's Interest in Talen Energy**

Upon closing of the Proposed Transaction, the RJS Entities, collectively, or the RJS SPE, will own 35% of the shares of Talen Energy's common stock. Following closing of the Proposed Transaction, in the ordinary course of Riverstone's management of its portfolio investments, Riverstone expects over time to directly or indirectly sell down the interests in Talen Energy held by the RJS Entities or the RJS SPE to achieve liquidity and monetize its investment in Talen Energy and the generating assets contributed by the RJS Entities to Talen Energy. (Joint Applicants' Statement No. 1, pp. 11-12)

In their direct testimony, the Applicants requested that the Commission make a finding that Riverstone (directly or indirectly) will not have an actual controlling interest in Talen Energy and, accordingly, Riverstone's expected sell-down of the interests in Talen Energy held by the RJS Entities or the RJS SPE would not need future Commission approval. (Joint Applicants' Statement No. 1, pp. 12, 18-21) As an alternative, the Applicants requested that the Commission approve, as part of the final order entered into in connection with this matter, expected future sell-down transactions of the shares of Talen Energy's common stock held by the RJS Entities (or the RJS SPE) or entities that are ultimately controlled by Riverstone to less than

a combined 20% of the outstanding shares of Talen Energy's common stock, solely to the extent that such sell-down transactions (if any) would not result in a new entity, other than an entity ultimately controlled by Riverstone, directly or indirectly holding 20% or more of the voting interest in Talen Energy or PPL IEC as a result thereof. (Joint Applicants' Statement No. 1, pp. 11, 21) In its protest, the OSBA questioned the request for a finding by the Commission that the RJS Entities or RJS SPE, and indirectly Riverstone, will not have a controlling interest in Talen Energy and the Applicants' alternative request for preapproval of the RJS Entities' (or RJS SPE's) anticipated future sell-down of their shares in Talen Energy below 20% of Talen Energy's outstanding common stock.

The Signatory Parties acknowledged that, immediately following the closing of the Proposed Transaction, Riverstone will indirectly control, through the RJS Entities or the RJS SPE, 35% of the shares of Talen Energy's common stock, and that Talen Energy will indirectly own 100% of PPL IEC (Settlement ¶ 28) and have stipulated that the Commission's Stock Transfer Policy applies to the Proposed Transaction.<sup>14</sup> (Settlement ¶ 25) In the Settlement, the Signatory Parties have agreed that over time the anticipated future sell-down transactions of the shares of Talen Energy's common stock held by the RJS Entities (or the RJS SPE) or entities that are ultimately controlled by Riverstone over time to less than a combined 20% of the outstanding shares of Talen Energy's common stock as part of Riverstone's ordinary course of management of its private equity portfolio interests should be approved by the Commission as part of its final order in this proceeding, subject to the following conditions and qualifications:

- (a) No sell-down of the shares of Talen Energy's common stock held by the RJS Entities (or the RJS SPE) or entities that are

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<sup>14</sup> The Parties further acknowledged in the Settlement that the Stock Transfer Policy does not establish a binding norm or obligation, and that the Commission has discretion on whether and how to apply the Stock Transfer Policy to a specific transaction. (Settlement ¶ 25)

ultimately controlled by Riverstone to less than a combined 20% of the outstanding shares of Talen Energy's common stock will occur during the first 180 days immediately following the closing of the Proposed Transaction (it being understood that the foregoing shall not limit any transfers of any such shares of Talen Energy's common stock to an entity controlled by Riverstone or to Talen Energy or one of its subsidiaries);

(b) PPL IEC shall file written notice with the Commission within ninety (90) days at the above-captioned docket, with copies served on all parties to the proceeding, following such time when the RJS Entities (or the RJS SPE) or entities that are controlled by Riverstone collectively cease to hold at least 20% of the total outstanding shares of Talen Energy's common stock;

(c) PPL IEC shall apply for a certificate of public convenience under 66 Pa.C.S. § 1102(a)(3) prior to the consummation of a transaction pursuant to which the RJS Entities (or the RJS SPE) or entities that are ultimately controlled by Riverstone sell 20% or more of the total outstanding shares of Talen Energy's common stock to any single entity or group of entities acting in concert as of the time of such sale (in each case, which entity or group of entities is not ultimately controlled by Riverstone); provided, however, that the RJS Entities (or the RJS SPE) or entities that are controlled by Riverstone shall be permitted, without further Commission review or approval, to temporarily transfer 20% or more of the total outstanding shares of Talen Energy's common stock to a broker, underwriter, or depository agent acting as an intermediary whose role is to facilitate the potential future sell-down transactions; and

(d) Nothing contained herein shall preclude Commission review of stock transfers that would otherwise be subject to the Stock Transfer Policy, to the extent such transfer would result in an entity or group of entities (other than the RJS Entities, the RJS SPE, or entities that are ultimately controlled by Riverstone) acquiring a voting interest of 20% or more in Talen Energy.

(Settlement ¶ 32)

The Applicants submit that these Settlement terms are a reasonable compromise of competing interests that will lessen the time and expense that parties must expend litigating this case and, at the same time, conserve precious administrative resources. The Proposed Transaction will provide a substantial public benefit by, among other things, encouraging

investment in Pennsylvania's energy infrastructure. To encourage such investments it is important that there is the ability for the investing party to get the benefit from such contributions. The Commission has previously recognized this axiom when it approved the sell-down of stock over a period of time as market conditions dictated in *Application of Pennsylvania-American Water Company for approval of a change in control to be effected through a public offering of the common stock of American Water Works Company, Inc.*, Docket No. A-212285F0136 (Order entered Sept. 27, 2007). This is the same basic approach being sought in this case. Riverstone expects over time to directly or indirectly sell down the interests in Talen Energy held by the RJS Entities or the RJS SPE to achieve liquidity and monetize its investment. (Joint Applicants' Statement No. 1, pp. 11-12)

The Settlement is also reasonable in light of the corporate governance that will be in place for Talen Energy at the closing of the Proposed Transaction. Specifically, Talen Energy is expected to be a publicly traded corporation whose common stock will be traded on the New York Stock Exchange ("NYSE"). As a publicly traded company, Talen Energy will be subject to the public company reporting, management controls and governance requirements under applicable federal securities laws and the NYSE rules. (Settlement ¶ 30). The Signatory Parties also acknowledged in the Settlement that day-to-day management and operations of Talen Energy will be directed and controlled by Talen Energy's board of directors. In accordance with the rules of the NYSE applicable to NYSE-listed companies, at the time of the closing of the Proposed Transaction (or within applicable "phase-in" periods under the NYSE rules), Talen Energy will have a board of directors, of which a majority are "independent" directors, as that term is defined by the NYSE rules. (Settlement ¶ 31). Accordingly, any sell-down over time of the shares of Talen Energy's common stock held by the RJS Entities (or the RJS SPE) or entities

that are ultimately controlled by Riverstone to less than a combined 20% of the outstanding shares of Talen Energy's common stock will not impact the day-to-day operations of Talen Energy or, by extension, PPL IEC.

For these reasons, the Applicants request that, pursuant to Section 1102(a)(3), the Commission approve, subject to the terms, conditions, and limitations of the Settlement, the anticipated future sell-down transactions of the shares of Talen Energy's common stock held by the RJS Entities (or the RJS SPE) or entities that are ultimately controlled by Riverstone to less than a combined 20% of the outstanding shares of Talen Energy's common stock, and that the Commission issue an appropriate Certificate of Public Convenience authorizing the same.

## **2. The Future Internal Corporate Reorganizations**

In the ordinary course of Riverstone's management of its portfolio investments and to facilitate customary corporate structuring and endeavors (for example, in connection with financings or tax planning), certain internal reorganizations may occur from time to time within Riverstone's corporate structure following the closing of the Proposed Transaction. Such internal reorganizations may take the form of interposing or eliminating intermediate holding companies or otherwise transferring equity interests in intermediate holding companies to affiliates of the RJS Entities (or the RJS SPE). No such internal reorganization will result in a change in the ultimate control of the RJS Entities or the RJS SPE by Riverstone. In each case, any such internal reorganization would result in the Talen Energy common stock being indirectly transferred to an affiliate of the RJS Entities or the RJS SPE, and any such affiliate will, in each case, ultimately be controlled by Riverstone. (Joint Applicants' Statement No. 1, pp. 11-12)

In their direct testimony, the Joint Applicants requested that the Commission make a finding that Riverstone (directly or indirectly) will not have an actual controlling interest in Talen Energy and, accordingly, Riverstone's potential future internal reorganizations would not

need future Commission approval. (Joint Applicants' Statement No. 1, pp. 12, 18-21) As an alternative, the Applicants requested that the Commission approve potential future internal reorganizations that may occur from time to time within Riverstone's corporate structure, to the extent that any such internal reorganization would not result in a change in the ultimate control of the RJS Entities or the RJS SPE by Riverstone. (Joint Applicants' Statement No. 1, pp. 12, 21) In its protest, the OSBA questioned the Applicants' request for a finding by the Commission that the RJS Entities or RJS SPE, and indirectly Riverstone, will not have a controlling interest in Talen Energy and the Applicants' alternative request for preapproval of internal restructurings that may occur from time to time within Riverstone's corporate structure.

The Signatory Parties have acknowledged that, immediately following the closing of the Proposed Transaction, Riverstone will indirectly control, through the RJS Entities or the RJS SPE, 35% of the shares of Talen Energy's common stock, and that Talen Energy will indirectly own 100% of PPL IEC (Settlement ¶ 28) and have stipulated that the Commission's Stock Transfer Policy applies to the Proposed Transaction.<sup>15</sup> (Settlement ¶ 25) In the Settlement, the Signatory Parties have agreed that potential future internal reorganizations that may occur from time to time within Riverstone's corporate structure as part of Riverstone's ordinary course of management of its private equity portfolio interests should be approved by the Commission as part of its final order in this proceeding, provided that any such internal reorganization would not result in a change in the ultimate control of the RJS Entities or the RJS SPE by Riverstone. (Settlement ¶ 32)

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<sup>15</sup> The Parties further acknowledged in the Settlement that the Stock Transfer Policy does not establish a binding norm or obligation, and that the Commission has discretion on whether and how to apply the Stock Transfer Policy to a specific transaction. (Settlement ¶ 25)

The Applicants submit that these Settlement terms are a reasonable compromise of competing interests that will lessen the time and expense that parties must expend litigating this case and, at the same time, conserve precious administrative resources. As noted above, the Proposed Transaction provides public benefit by bringing substantial capital investment to Pennsylvania's energy infrastructure. The Commission should foster such investment by not unduly burdening customary internal corporate structuring changes where there is no ultimate change in control of the public utility. In this case, the changes will not alter Riverstone's ultimate control of the RJS Entities or the RJS SPE, as the case may be, and should be approved by the Commission to encourage such investments in Pennsylvania's energy infrastructure.

The Settlement is also reasonable because of the corporate governance that will be in place with respect to Talen Energy at the closing of the Proposed Transaction. Specifically, Talen Energy is expected to be a publicly traded corporation whose common stock will be traded on the NYSE. As a publicly traded company, Talen Energy will be subject to the public company reporting, management controls and governance requirements under applicable federal securities laws and the NYSE rules. (Settlement ¶ 30).

The Signatory Parties also acknowledged in the Settlement that day-to-day management and operations of Talen Energy will be directed and controlled by Talen Energy's board of directors. In accordance with the rules of the NYSE applicable to NYSE-listed companies, at the time of the closing of the Proposed Transaction (or within applicable "phase-in" periods under the NYSE rules), Talen Energy will have a board of directors, of which a majority are "independent" directors, as that term is defined by the NYSE rules. (Settlement ¶ 31). Accordingly, any internal reorganization will not impact the day-to-day operations of Talen Energy, or by extension, PPL IEC.

For these reasons, the Applicants request that, pursuant to Section 1102(a)(3), the Commission approve the potential future internal reorganizations that may occur from time to time within Riverstone's corporate structure subject to the terms, conditions, and limitations of the Settlement, and that the Commission issue an appropriate Certificate of Public Convenience authorizing the same.

**F. ADDITIONAL AFFIRMATIVE PUBLIC BENEFITS PRODUCED BY THE SETTLEMENT**

The Proposed Transaction has the following key benefits: (i) the realignment of deregulated and regulated business lines; (ii) allowing PPL Corp. to focus on the core function of providing utility service through EU; (iii) access to capital with a "pure play" risk profile; (iv) clarification of certain property interests to ensure that PPL EU has the property rights necessary to continue to provide safe and reliable service to customers; and (v) retail competition. (Joint Applicants' Statement No. 2, p. 19) The Commission has previously found the transfer of deregulated assets of Duquesne Light Company, Metropolitan Edison Company, and Pennsylvania Electric Company to third-parties to be in the public interest. *See Application of Duquesne Light Company for Approval of Its Restructuring Plan Under Section 2806 of the Public Utility Code*, Docket Nos. R-00974104, *et al.*, 1998 Pa. PUC LEXIS 163 (May 29, 1998); *Application of Metropolitan Edison Company for Approval of Restructuring Plan Under Section 2806 of the Public Utility Code*, Docket Nos. R-00974008, *et al.*, 1998 Pa. PUC LEXIS 160 (June 30, 1998); *Application of Pennsylvania Electric Company for Approval of Restructuring Plan Under Section 2806 of the Public Utility Code*, Docket Nos. R-00974009, *et al.*, 1998 Pa. PUC LEXIS 162 (June 30, 1998).

The primary purpose of the Proposed Transaction is to separate PPL Corp.'s existing deregulated electric generation and retail electric and gas supply business lines from its regulated

electric utility business lines. As a result, PPL Corp. will no longer be involved in these business lines in the Commonwealth. The PPL IEC and PPL EnergyPlus assets are closely aligned with the generation portion of the business of PPL Energy Supply and its subsidiaries, and are not aligned in any material way with the regulated electric transmission and distribution businesses of PPL EU. The spin off its deregulated electric generation and retail electric and gas supply business lines will allow PPL Corp. to focus its activities in the Commonwealth on the core function of providing electric transmission and distribution services through PPL EU. (Joint Applicants' Statement No. 2, pp. 13-14)

The spinoff of PPL Corp.'s deregulated electric generation and retail electric and gas supply business lines also will allow PPL Corp. to access to capital with a "pure play" risk profile focused on only one industry or product line. Following closing of the Proposed Transaction, PPL Corp. will be focused on only its regulated businesses and will present a clearer investment profile to the capital markets. This should provide PPL Corp., and thus PPL EU, with better and more efficient access to capital. (Joint Applicants' Statement No. 2, p. 14)

Pursuant to Section 2811(e)(1) of the Public Utility Code, the Commission, to the extent it otherwise has jurisdiction over a transaction, is required to consider whether a proposed merger or consolidation of an electric distribution company or an electric generation supplier is likely to result in anticompetitive or discriminatory conduct. 66 Pa.C.S. § 2811(e)(1). PPL EnergyPlus is an electric generation supplier licensed by the Commission. As part of the Proposed Transaction, PPL Corp. proposes to transfer its indirect ownership of PPL EnergyPlus to Talen Energy. The transfer of PPL EnergyPlus as part of the spinoff will help disassociate the deregulated generation and retail supply businesses from the PPL brand. Further, it will reduce the costs required by PPL EU, the Commission, and FERC to review and ensure regulatory

compliance with mandatory separation standards and codes of conduct for entities affiliated with the regulated utility. (Joint Applicants' Statement No. 2, p. 15) Finally, the Proposed Transaction provides for the phase out of the use of the "PPL" name by PPL EnergyPlus after the closing of the Proposed Transaction. Some competing electric generation suppliers have contended that use of an electric distribution company's "family" name may confuse customers and provide a benefit to an affiliated electric generation supplier. Without commenting on the appropriateness of such contentions, the Proposed Transaction will put this issue to rest, at least for PPL EU, as PPL EnergyPlus will no longer be using the "PPL" name. (Joint Applicants' Statement No. 2, p. 15)

Pursuant to Section 2210(a)(1) of the Public Utility Code, the Commission, to the extent it otherwise has jurisdiction over a transaction, is required to consider whether a proposed merger or consolidation of a natural gas distribution company or a natural gas supplier is likely to result. PPL IEC is a natural gas distribution company certificated by the Commission and PPL EnergyPlus is a natural gas supplier licensed by the Commission. As part of the Proposed Transaction, PPL Corp. proposes to transfer its indirect interests in PPL IEC and PPL EnergyPlus to Talen Energy. The PPL IEC and PPL EnergyPlus assets are closely aligned with the generation portion of the business of PPL Energy Supply and its subsidiaries, and are not aligned in any way with the regulated electric transmission and distribution business of PPL EU. The transfer of PPL Corp.'s indirect ownership of PPL IEC and PPL EnergyPlus will not result in any harm to retail competition. (Joint Applicants' Statement No. 2, p. 16)

Under Section 2210(a)(2) of the Public Utility Code, the Commission is required to consider the impact that a proposed merger or consolidation of a natural gas distribution company may have on the employees of the natural gas distribution company. 66 Pa.C.S. §

2210(a)(2). As explained above, PPL IEC is a natural gas distribution company certificated by the Commission that, upon closing of the Proposed Transaction, will be transferred to Talen Energy. The transfer of the indirect ownership interest in PPL IEC is expected to have no substantial adverse impact to the employees of PPL IEC. All of the operating and management employees of PPL IEC immediately prior to closing of the Proposed Transaction will remain employees of PPL IEC following the closing of the Proposed Transaction as required to meet the continuing operations and management needs of the business. (Joint Applicants' Statement No. 3, p. 6) Thus, the Proposed Transaction will have no substantial adverse impact to the employees of PPL IEC.

There also will not be any substantive changes to PPL IEC's existing tariffs as a result of the Proposed Transaction. PPL IEC does, however, plan to file appropriate tariff supplements, upon or after closing of the Proposed Transaction, to reflect a change in the corporate name for PPL IEC. (Joint Applicants' Statement No. 3, p. 6) Other than approval of the tariff supplements, no Commission approval is required to change the corporate name for PPL IEC. To the extent that Commission approval is required to change PPL IEC's corporate name, PPL IEC requests such approval in this proceeding. (Joint Applicants' Statement No. 3, p. 6)

Talen Energy has committed pursuant to the Proposed Transaction Agreement that, for at least three years following the closing of the Proposed Transaction, it will maintain its headquarters in Pennsylvania and will use commercially reasonable efforts to maintain competitive retail energy supply business activity in the City of Allentown's Neighborhood Improvement Zone. (Joint Applicants' Statement No. 1, p. 26)

## **G. TECHNICAL, LEGAL, AND FINANCIAL FITNESS TO OWN AND OPERATE PPL IEC**

Under Sections 1102 and 1103 of the Public Utility Code, 66 Pa.C.S. §§ 1102, 1103, the Applicants must demonstrate that the party to whom the assets and service obligations are being transferred is technically, legally, and financially fit. *See Seaboard Tank Lines*, 502 A.2d 762, 764 (Pa. Cmwlth. 1985); *Warminster Township Mun. Auth. v. Pa. PUC*, 138 A.2d 240, 243 (Pa. Super. 1958). At closing of the Proposed Transaction, PPL Corp.'s indirect ownership interest in PPL IEC, which holds a certificate of public convenience to transport oil and natural gas only to generating facilities, will be transferred to Talen Energy. As explained above, Riverstone will indirectly control, through the RJS Entities or the RJS SPE, 35% of the shares of Talen Energy's common stock. (Joint Applicants' Statement No. 1, pp. 17-18) For the reasons explained below, Riverstone, Talen Energy, and PPL IEC are technically, legally, and financially fit to own and operate PPL IEC, as required by Section 1102 and 1103 of the Public Utility Code.

### **1. Technical Fitness**

Currently, PPL IEC is solely in the business of transporting oil and natural gas to electric generating stations. The current operating and management employees of PPL IEC have continually operated and maintained the utility facilities in a safe and reliable manner, and PPL IEC has a proven track record of pipeline safety. All of the operating and management employees of PPL IEC immediately prior to the closing of the Proposed Transaction will remain employees of PPL IEC following the closing of the Proposed Transaction as required to meet the continuing operations and management needs of the business. (Joint Applicants' Statement No. 3, pp. 8-9)

The operational and management experience of PPL Energy Supply in operating electric generating stations will be transferred to Talen Energy as part of the Proposed Transaction and

combined with similar expertise from the generating facilities to be contributed to Talen Energy by the RJS Entities. This combined skill of Talen Energy in managing and operating electric generation stations and acquiring fuel to power such stations will provide the necessary expertise to manage and operate PPL IEC in its function of providing oil and natural gas to electric generating stations post-closing. (Joint Applicants' Statement No. 1, pp. 25-26; Joint Applicants' Statement No. 3, p. 9)

For these reasons, PPL IEC and Talen Energy will have the required managerial and technical experience to operate PPL IEC's pipeline assets upon the closing of the Proposed Transaction.

## **2. Legal Fitness**

Talen Energy will consist of a combination of PPL Corp.'s and the RJS Entities' competitive electric generation and related businesses. The RJS Entities are in compliance in all material respects with federal law and state law in the jurisdictions in which they operate. None of the entities have been prosecuted, indicted, or investigated for criminal activity. (Joint Applicants' Statement No. 1, p. 28)

The Sarbanes-Oxley Act of 2002 was passed to protect shareholders and the general public from accounting errors and fraudulent practices, as well as to improve the accuracy of corporate disclosures. The United States Securities and Exchange Commission administers the Act, which sets deadlines for compliance and publishes rules on requirements. As a publicly traded company, Talen Energy will fully comply with the Sarbanes-Oxley corporate governance and accountability requirements. (Joint Applicants' Statement No. 1, p. 28)

Further, in the Settlement, the Signatory Parties acknowledged that, upon the consummation of the Proposed Transaction, Talen Energy is expected to be a publicly traded corporation whose common shares are traded on the NYSE. As a publicly traded company,

Talen Energy will be subject to the public company reporting, management controls and governance requirements under applicable federal securities laws and the NYSE rules. (Settlement ¶ 30)

The Signatory Parties also acknowledged in the Settlement that day-to-day management and operations of Talen Energy will be directed and controlled by Talen Energy's board of directors. In accordance with the rules of the NYSE applicable to NYSE-listed companies, at the time of the closing of the Proposed Transaction (or within applicable "phase-in" periods under the NYSE rules), Talen Energy will have a board of directors, of which a majority are "independent" directors, as that term is defined by the NYSE rules. (Settlement ¶ 31)

For these reasons, Talen Energy is legally fit to own and operate PPL IEC.

### **3. Financial Fitness**

Talen Energy will have substantial financial resources available to operate PPL IEC. Talen Energy's balance sheet quality, measured by the ratio of debt-to-EBITDA,<sup>16</sup> is projected to be as strong as or stronger than its peers at approximately 3.5 times. Based on the valuations of peer companies (as of the date of the written testimony referenced herein), the market value of total equity is expected to be approximately \$5.1 billion and the enterprise value (the market value of equity plus total debt outstanding) is expected to be approximately \$8.8 billion. At this financial scale, Talen Energy will have ready access to debt and equity capital as needed to fulfill its funding requirements to own and operate PPL IEC. (Joint Applicants' Statement No. 1, pp. 23-24)

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<sup>16</sup> EBITDA is a company's earnings before interest, taxes, depreciation, and amortization and is used to analyze and compare a company's financial performance.

Talen Energy also is making arrangements to have a revolving credit facility of approximately \$1.85 billion available to it upon closing of the Proposed Transaction. The credit facility will be fully committed and available to Talen Energy upon the closing of the Proposed Transaction. (Joint Applicants' Statement No. 1, p. 24)

Currently, there is no debt at or allocated to PPL IEC, and PPL IEC is expected to have approximately \$8.3 million in equity as of December 31, 2014. This no-debt capital structure for PPL IEC is expected to continue following the closing of the Proposed Transaction. As of June 30, 2014, the *pro forma* capital structure of Talen Energy, which will indirectly own PPL IEC upon closing of the Proposed Transaction, was 45% debt and 55% common equity.<sup>17</sup> There are no present plans to materially increase the amount of indebtedness from this level upon closing of the Proposed Transaction. Further, PPL IEC will not guarantee the debt of Talen Energy of any of its other affiliates. (Joint Applicants' Statement No. 1, p. 24)

Finally, the Applicants recognize that transaction costs are not recoverable in rates. As such, the Applicants commit that there will not be any claim for such costs in PPL IEC's or PPL EU's future rate filings. (Joint Applicants' Statement No. 1, p. 25)

For these reasons, Talen Energy will have the financial fitness to own and operate PPL IEC.

## V. CONCLUSION

Based on the foregoing, the Proposed Transaction as modified by the Settlement is in the public interest and should be approved without modification. The Proposed Transaction

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<sup>17</sup> These capital ratios were calculated by combining the debt of PPL Energy Supply and RJS Holdings and the book value of equity of PPL Energy Supply and RJS Holdings as of June 30, 2014. These values do not reflect purchase accounting adjustments to the balance sheet of RJS Holdings that will be required at closing.

described in the Joint Application, subject to the terms and conditions contained in the Settlement, is necessary and proper for the service, accommodation, convenience, or safety of the public, as required by Section 1103 of the Public Utility Code, 66 Pa.C.S. § 1103. It is clear that the Proposed Transaction, subject to the terms and conditions contained in the Settlement, will affirmatively promote the public interest in a substantial way, as required by *City of York v. Pa. PUC*, 449 Pa. 136, 295 A.2d 825 (1972).

The Proposed Transaction, subject to the terms and conditions contained in the Settlement: (1) will not result in any anti-competitive or discriminatory conduct, including the unlawful exercise of market power in the retail natural gas or electric market, as required by Sections 2210(a)(1) and 2811(e) of the Public Utility Code, 66 Pa.C.S. § 2210(a)(1); and (2) will not produce any unreasonable adverse effect on the employees of the Applicants or on any authorized collective bargaining agent representing those employees, as required by Section 2210(a)(2) of the Public Utility Code, 66 Pa.C.S. § 2210(a)(2).

Each of the components of the Proposed Transaction, as modified by the Settlement, are integral and critical part of the overall “spin-off” of PPL Corp.’s deregulated electric generation and retail electric and gas supply business lines to the shareholders of PPL Corp. and the combination of such businesses with the competitive power generation business lines of RJS Entities to form Talen Energy. Any revision to the Proposed Transaction, as modified by the Settlement, would likely upset the carefully structured transactions contemplated by the Joint Application that are necessary to undertake the “spin-off” of PPL Corp.’s deregulated electric generation and retail electric and gas supply business lines. Any additional amendment or condition could limit the ability of the Applicants to maintain, operate, and access their existing

facilities, rights, and uses that are necessary to provide service to the public. Alternatively, such an amendment or condition could precipitate a termination of the overall Proposed Transaction.

WHEREFORE, PPL Interstate Energy Company and PPL Electric Utilities Corporation respectfully request that Administrative Law Judge Susan D. Colwell recommend that the Pennsylvania Public Utility Commission approve, and that the Pennsylvania Public Utility Commission approve, the transactions contemplated in the Joint Application subject to the terms and conditions contained in the Settlement, without modification

Respectfully submitted,



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Date: December 30, 2014

Attorneys for PPL Interstate Energy Company  
and PPL Electric Utilities Corporation

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Joint Application of PPL Interstate Energy :  
Company and PPL Electric Utilities :  
Corporation for All of the Necessary : Docket Nos. A-2014-2435752  
Authority, Approvals, and Certificates of : A-2014-2435833  
Public Convenience (1) for the Transfer of :  
PPL Corporation's Ownership Interests in :  
PPL Interstate Energy Company to Talen :  
Energy Corporation, and Certain Post- :  
Closing Transactions Associated therewith; :  
(2) for the Transfer of Certain Property :  
Interests Between PPL Electric Utilities :  
Corporation and PPL Energy Supply, LLC :  
and its Subsidiaries in Conjunction with :  
the Transfer of All of the Interests of PPL :  
Energy Supply, LLC and its Subsidiaries to :  
Talen Energy Corporation; (3) for any :  
Modification or Amendment of Associated :  
Affiliated Interest Agreements; and (4) for :  
any Other Approvals Necessary to :  
Complete the Contemplated Transactions :

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**PROPOSED FINDINGS OF FACT OF  
PPL ELECTRIC UTILITIES CORPORATION**

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TO THE HONORABLE ADMINISTRATIVE LAW JUDGE SUSAN D. COLWELL:

PPL Interstate Energy Company ("PPL IEC") and PPL Electric Utilities Corporation ("PPL EU") (hereinafter, PPL IEC and PPL EU are collectively referred to as the "Applicants") submit these Proposed Findings of Fact in support of the Joint Petition for Approval of Settlement of All Issues ("Settlement"), and respectfully request that Administrative Law Judge Susan D. Colwell ("ALJ") and the Pennsylvania Public Utility Commission ("Commission") adopt the following findings of fact in the above-caption proceeding:

**A. BACKGROUND**

1. PPL IEC is a wholly owned direct subsidiary of PPL Generation, LLC (“PPL Generation”), which in turn is a wholly owned direct subsidiary of PPL Energy Supply, LLC (“PPL Energy Supply”). PPL Energy Supply is a wholly owned direct subsidiary of PPL Energy Funding Corporation, which in turn is a wholly owned direct subsidiary of PPL Corporation (“PPL Corp.”). (Joint Applicants’ Statement No. 3, p. 3)

2. PPL IEC is a public utility under the Public Utility Code providing transportation of oil and natural gas to electric generating stations pursuant to certificates of public convenience granted by the Commission. PPL IEC currently owns and operates two pipelines that deliver fuel to two generating plants owned and operated by subsidiaries of PPL Energy Supply in Lower Mount Bethel Township, Northampton County, Pennsylvania. (Joint Applicants’ Statement No. 3, pp. 3-5)

3. PPL EU is a wholly owned direct subsidiary of PPL Corp. PPL EU is a “public utility,” an “electric distribution company” and a “default service provider” as defined in Sections 102 and 2803 of the Public Utility Code, 66 Pa.C.S. §§ 102, 2803. (Joint Applicants’ Statement No. 2, p. 4)

4. PPL EU furnishes electric distribution, transmission and default supply services to approximately 1.4 million customers throughout its certificated service territory, which includes all or portions of twenty-nine counties and encompasses approximately 10,000 square miles in eastern and central Pennsylvania. (Joint Applicants’ Statement No. 2, p. 4)

5. PPL Corp. intends to spin-off its deregulated electric generation and retail electric and gas supply business lines to the shareholders of PPL Corp. and combine them with the competitive power generation business lines of Raven Power Holdings LLC (“Raven”), C/R

Energy Jade, LLC (“Jade”), and Sapphire Power Holdings LLC (“Sapphire” and together with Raven and Jade hereinafter collectively referred to as the “RJS Entities”) to form Talen Energy Corporation (“Talen Energy”). (Joint Applicants’ Statement No. 2, pp. 6-7). The foregoing transactions are collectively referred to hereinafter as the “Proposed Transaction.”

6. As of the closing of the Proposed Transaction, the shareholders of PPL Corp. will own 65% of the outstanding shares of common stock of Talen Energy and Riverstone Holdings LLC (“Riverstone”), through either the RJS Entities or an existing or newly formed holding company that will be wholly owned by the RJS Entities and controlled by Raven (the “RJS SPE”), will indirectly control 35% of the outstanding shares of Talen Energy. (Joint Applicants’ Statement No. 1, p. 5)

**B. TRANSFER OF PPL CORP.’S INDIRECT OWNERSHIP INTERESTS IN PPL IEC TO TALEN ENERGY**

7. As part of the Proposed Transaction, PPL Corp.’s indirect ownership interest in PPL IEC, which holds a certificate of public convenience to transport oil and natural gas only to generating facilities, will be transferred to Talen Energy. (Joint Applicants’ Statement No. 1, p. 15)

8. Upon closing of the Proposed Transaction, PPL IEC will become a wholly owned, indirect subsidiary of Talen Energy. (Joint Applicants’ Statement No. 3, pp. 5-6)

9. The PPL IEC assets are closely aligned with the generation portion of the business of PPL Energy Supply and its subsidiaries and are not aligned in any material way with the regulated electric transmission and distribution businesses of PPL EU. (Joint Applicants’ Statement No. 3, p. 9)

10. It is the public interest for the ownership of PPL IEC to be indirectly transferred as part of the Proposed Transaction. (Joint Applicants’ Statement No. 3, p. 9)

**C. ACQUISITION BY RIVERSTONE OF A 35% INDIRECT INTEREST IN PPL IEC**

11. The RJS Entities or the RJS SPE will own or control 35% of Talen Energy upon closing of the Proposed Transaction. (Joint Applicants' Statement No. 1, p. 5)

12. Both the RJS Entities and the RJS SPE will be ultimately controlled by Riverstone upon the closing of the Proposed Transaction. (Joint Applicants' Statement No. 1, pp. 7-9)

13. Upon the closing of the Proposed Transaction, Riverstone will indirectly control, through the RJS Entities or the RJS SPE, 35% of the shares of Talen Energy's common stock, and PPL IEC will be an indirect, wholly owned subsidiary of Talen Energy. (Settlement ¶ 28)

14. Subject to the terms and conditions of the Settlement, Riverstone's acquisition of a 35% indirect controlling interest in PPL IEC, through the RJS Entities or the RJS SPE, is in the public interest and should be approved. (Settlement ¶ 29)

**D. THE TRANSFER OR CLARIFICATION OF PROPERTY INTERESTS**

**1. Transmission Rights-of-Way to be Transferred/Clarified**

15. Currently, PPL EU transmission rights-of-way encumber 156 tracts of land owned by the following subsidiaries of PPL Energy Supply: PPL Holtwood, LLC; PPL Brunner Island, LLC; PPL Montour, LLC; PPL Martins Creek, LLC; PPL Susquehanna, LLC; and PPL Generation, LLC. (Joint Applicants' Exhibit No. 1, Appendix H (REVISED))

16. Upon closing of the Proposed Transaction, PPL Corp.'s indirect ownership of the deregulated electric generation plants and the associated tracts of land will be transferred to Talen Energy. (Joint Applicants' Statement No. 4, p. 7)

17. In order to ensure that PPL EU has sufficient rights to maintain and operate its existing transmission facilities across these plant properties following the closing of the Proposed

Transaction, appropriate agreements will be executed and recorded, if necessary, to confirm the rights for the existing transmission rights-of-way. (Joint Applicants' Statement No. 4, pp. 7-8; Joint Applicants' Exhibit MAJ-1)

18. There will be no monetary or other consideration provided by PPL EU in respect of these existing rights-of-way. (Joint Applicants' Statement No. 4, p 8)

19. The reaffirmation of the existing transmission rights-of-way set forth in Joint Applicants' Exhibit No. 1, Appendix H (REVISED) is in the public interest because it will (i) ensure that PPL EU is able to continue to provide safe, reliable, and continuous service to its customers, and (ii) ensure that the electric generation plant facilities remain interconnected to the electric grid, and that PPL EU has sufficient rights in the future to maintain and operate its transmission lines serving these plants. (Joint Applicants' Statement No. 4, p. 9)

## **2. Distribution Rights-of-Way to be Transferred/Clarified**

20. Currently, PPL EU transmission distribution rights-of-way encumber 352 deeds representing tracts of land owned by the following subsidiaries of PPL Energy Supply: PPL Holtwood, LLC; PPL Montour, LLC; PPL Susquehanna, LLC; and PPL Generation, LLC. (Joint Applicants' Exhibit No. 1, Appendix I)

21. Upon closing of the Proposed Transaction, PPL Corp.'s indirect ownership of the deregulated electric generation plants and the associated tracts of land will be transferred to Talen Energy. (Joint Applicants' Statement No. 4, p. 10)

22. In order to ensure that PPL EU has sufficient rights to maintain and operate its existing distribution facilities across these plant properties following the closing of the Proposed Transaction, appropriate agreements will be executed and recorded, if necessary, to confirm the

rights for the existing distribution rights-of-way. (Joint Applicants' Statement No. 4, p. 10; Joint Applicants' Exhibit MAJ-1)

23. There will be no monetary or other consideration provided by PPL EU in respect of these existing rights-of-way. (Joint Applicants' Statement No. 4, pp. 10-11)

24. The reaffirmation of the existing distribution rights-of-way set forth in Joint Applicants' Exhibit No. 1, Appendix I is in the public interest because it will (i) ensure that PPL EU is able to continue to provide safe, reliable, and continuous service to its customers, and (ii) ensure that PPL EU has sufficient rights to maintain and operate its distribution lines that traverse the generating plant properties. (Joint Applicants' Statement No. 4, p. 11)

### **3. Substation Facility Properties to be Transferred/Clarified**

25. Currently, the following PPL EU substation facilities are located on properties owned by subsidiaries of PPL Energy Supply: two PPL EU substation facilities are located on eight tracts of land owned by PPL Holtwood, LLC; one PPL EU substation is located on two tracts of land owned by PPL Brunner Island, LLC; two PPL EU substation facilities are located on three tracts of land owned by PPL Montour, LLC; two PPL EU substation facilities are located on two tracts of land owned by PPL Martins Creek, LLC; three PPL EU substation facilities are located on four tracts of land owned by PPL Susquehanna, LLC and Allegheny Electric Cooperative; one PPL EU substation is located on two tracts of land owned by PPL Generation, LLC; and one PPL EU substation is located on land owned by PPL IEC. In total, there are 12 PPL EU substation facilities currently located on twenty-two tracts of land owned by subsidiaries of PPL Energy Supply. (Joint Applicants' Statement No. 4, p. 12; Joint Applicants' Exhibit 1, Appendix J (REVISED))

26. Upon closing of the Proposed Transaction, PPL Corp.'s indirect ownership of the deregulated electric generation plants and the associated tracts of land will be transferred to Talen Energy. (Joint Applicants' Statement No. 4, p. 7)

27. In order to ensure that PPL EU has sufficient rights in the future to maintain, operate, and access its existing substations, which are necessary to provide electric service to the public, appropriate easements or deeds of transfer will be prepared and executed, upon or after closing of the Proposed Transaction, to memorialize existing rights or transfer property back to PPL EU. (Joint Applicants' Statement No. 4, pp. 12-14)

28. There will be no monetary or other consideration provided by PPL EU for the transfer or clarification of rights in respect of the existing PPL EU substation sites. (Joint Applicants' Statement No. 4, p. 15)

29. The transfer or clarification of the property interests in respect of the existing PPL EU substation facilities set forth in Joint Applicants' Exhibit 1, Appendix J (REVISED) is in the public interest because it will (i) ensure that PPL EU is able to continue to provide safe, reliable, and continuous service to its customers, and (ii) ensure that PPL EU has sufficient rights in the future to maintain, operate, and access its existing substations, which are necessary to provide electric service to the public. (Joint Applicants' Statement No. 4, p. 16)

**4. Miscellaneous Properties and Interests owned by PPL Energy Supply and/or its Subsidiaries that currently are used by PPL EU**

30. Certain miscellaneous properties and interests owned by PPL Energy Supply and/or its subsidiaries currently are used by PPL EU, including: (i) PPL EU's access/use of existing fiber-optic network cabling and other telecommunication equipment located on properties of PPL Energy Supply and/or its subsidiaries; and (ii) control equipment houses located on property owned by PPL Energy Supply subsidiaries and currently utilized by both

PPL EU and the applicable PPL Energy Supply subsidiaries. (Joint Applicants' Statement No. 4, pp. 16-17; Joint Applicants' Exhibit 1, Appendix K)

31. Upon or after closing of the Proposed Transaction, appropriate easements and/or license agreements will be executed to ensure that PPL EU's use of the fiber-optic network cabling and telecommunication equipment will continue consistent with past practices. (Joint Applicants' Statement No. 4, p. 17)

32. Upon or after closing of the Proposed Transaction, easements and/or license agreements will be prepared and executed by the applicable PPL Energy Supply subsidiaries in favor of PPL EU to ensure the continued use by PPL EU of the control equipment houses and that such use is consistent with past practices. (Joint Applicants' Statement No. 4, p. 17)

33. The proposed easements and/or license agreements are in the public interest because they will ensure that PPL EU will have all the property rights and access rights necessary to operate and maintain its existing facilities so that it may continue to provide safe and reliable service to customers. (Joint Applicants' Statement No. 4, p. 19)

**5. Miscellaneous Properties and Interests owned by PPL EU that Currently are used by PPL Energy Supply and/or its Subsidiaries.**

34. There are certain miscellaneous properties and interests owned by PPL EU that are currently used by PPL Energy Supply and/or its subsidiaries. These property interests include: (i) easements between PPL EU and PPL Martins Creek, LLC for combustion turbine generator facilities located on PPL EU property; (ii) an office space and records center owned by PPL EU but currently used by PPL Corp. subsidiaries, including PPL Energy Supply and its subsidiaries; (iii) license agreements for air monitoring equipment on PPL EU's property; and (iv) access/use by subsidiaries of PPL Energy Supply of existing fiber-optic network cabling and

other telecommunication equipment located on PPL EU's property. (Joint Applicants' Statement No. 4, pp. 17-18; Joint Applicants' Exhibit 1, Appendix L (REVISED))

35. The easements between PPL EU and PPL Martins Creek, LLC for combustion turbine generator facilities located on PPL EU property will continue, but will be updated to include customary and reasonable environmental indemnity language. (Joint Applicants' Statement No. 4, p. 18)

36. The update and continuation of these easement agreements is in the public interest because it will ensure that PPL Energy Supply and its subsidiaries will have all the property rights and access rights necessary to operate and maintain its combustion turbine generator facilities so that they may continue to provide safe and reliable service to customers. (Joint Applicants' Statement No. 4, p. 19)

37. With respect to the office space and records center owned by PPL EU but currently used by PPL Corp. subsidiaries, the PPL Energy Supply and its subsidiaries will no longer use such office space or record center following the closing of the Proposed Transaction and, therefore, these agreements will be terminated. The termination of the agreements for use of the office space and records center by PPL Energy Supply subsidiaries is in the public interest. (Joint Applicants' Statement No. 4, p. 18)

38. With respect to the license agreements for air monitoring equipment on PPL EU's property, it is anticipated that PPL Susquehanna's use of PPL EU's land for the required air monitoring stations will continue and be more permanently memorialized in an appropriate agreement. These agreements are in the public interest because they will more permanently permit PPL Susquehanna's air monitoring stations, which are required by the Nuclear Regulatory Commission, and are located on PPL EU property. (Joint Applicants' Statement No. 4, p. 19)

39. With respect to access/use by subsidiaries of PPL Energy Supply of existing fiber-optic network cabling and other telecommunication equipment located on PPL EU's property, appropriate easements and/or license agreements will be executed to ensure that use/access by subsidiaries of PPL Energy Supply of the fiber-optic network cabling and telecommunication equipment will continue consistent with past practices. (Joint Applicants Exhibit No. 1, Appendix L (REVISED))

40. These easements and/or license agreements are in the public interest because they will ensure that PPL Energy Supply and its subsidiaries will have all the property rights and access rights necessary to operate and maintain their existing facilities so that they may continue to provide safe and reliable service to customers. (Joint Applicants' Statement No. 4, p. 19)

**E. STATUS OF INTERCOMPANY AGREEMENTS UPON CLOSING**

41. The Proposed Transaction involves certain intercompany agreements between PPL Energy Supply subsidiaries and PPL EU or PPL IEC. These agreements fall into four general categories: (1) agreements that will remain in place after the closing of the Proposed Transaction, but where PPL Energy Supply and its subsidiaries will no longer be affiliates of PPL EU (see Joint Applicants' Exhibit 1, Appendix M (REVISED)); (2) agreements that will remain in place after the closing of the Proposed Transaction, but where the relevant PPL Energy Supply subsidiaries will no longer be parties to the agreements (see Joint Applicants' Exhibit 1, Appendix N (REVISED)); (3) agreements between PPL IEC and PPL Energy Supply subsidiaries that will remain in place after the closing of the Proposed Transaction (see Joint Applicants' Exhibit 1, Appendix M (REVISED)); and (4) agreements that will terminate and be replaced at closing of the Proposed Transaction (Joint Applicants' Exhibit 1, Appendix O

(REVISED)). (Joint Applicants' Statement No. 2, pp. 8-12; Joint Applicants' Statement No. 3, pp. 6-7)

42. With respect to the intercompany agreements that will remain in place unchanged after the closing of the Proposed Transaction, as set forth in Joint Applicants' Exhibit 1, Appendix M (REVISED), PPL Energy Supply and its subsidiaries will no longer be affiliates of PPL EU after the closing of the Proposed Transaction. (Joint Applicants' Statement No. 2, pp. 9, 12)

43. With respect to the agreements that will remain in place after the closing of the Proposed Transaction, but where the relevant PPL Energy Supply subsidiaries will no longer be parties to the agreements as set forth in Joint Applicants' Exhibit 1, Appendix N (REVISED), no substantive modification or amendment to these existing agreements will be made. The relevant PPL Energy Supply subsidiaries will simply be removed as parties to these agreements. (Joint Applicants' Statement No. 2, p. 10)

44. With respect to the agreements between PPL IEC and PPL Energy Supply subsidiaries that will remain in place after the closing of the Proposed Transaction, PPL IEC will continue to be affiliated with PPL Energy Supply and its other subsidiaries post-closing. (Joint Applicants' Statement No. 3, p. 7)

45. With respect to the interconnection agreements that will terminate at closing of the Proposed Transaction, such agreements will be replaced with Federal Energy Regulatory Commission ("FERC") jurisdictional *pro forma* interconnection agreements. (Joint Applicants' Statement No. 2, pp. 11-12)

46. PPL Energy Supply subsidiaries and PPL EU will no longer be affiliates upon closing of the Proposed Transaction. (Joint Applicants' Statement No. 2, pp. 11-12)

**F. THE SETTLEMENT OF CERTAIN FUTURE POST CLOSING TRANSACTIONS**

47. Following the closing of the Proposed Transaction, in the ordinary course of Riverstone's management of its portfolio investments, Riverstone expects over time to directly or indirectly sell the interests in Talen Energy held by the RJS Entities or the RJS SPE to achieve liquidity and monetize its investment in Talen Energy and the generating assets contributed by the RJS Entities to Talen Energy. (Joint Applicants' Statement No. 1, pp. 11-12)

48. Subject to the terms and conditions of the Settlement, the anticipated future sell-down of the shares of Talen Energy's common stock held by the RJS Entities (or the RJS SPE) or entities that are ultimately controlled by Riverstone over time to less than a combined 20% of the outstanding shares of Talen Energy's common stock as part of Riverstone's ordinary course of management of its private equity portfolio interests is in the public interest. (Settlement ¶ 32)

49. In the ordinary course of managing its portfolio investments and to facilitate customary corporate structuring and endeavors (for example, in connection with financings or tax planning), certain internal reorganizations may occur from time to time within Riverstone's corporate structure following the closing of the Proposed Transaction. (Joint Applicants' Statement No. 1, pp. 11-12)

50. Subject to the terms and conditions of the Settlement, the potential future internal reorganizations that may occur from time to time within Riverstone's corporate structure as part of Riverstone's ordinary course of management of its private equity portfolio interests are in the public interest. (Settlement ¶ 32)

**G. ADDITIONAL AFFIRMATIVE PUBLIC BENEFITS PRODUCED BY THE SETTLEMENT**

51. The Proposed Transaction has the following key benefits: (i) the realignment of deregulated and regulated business lines; (ii) allowing PPL Corp. to focus on the core function of providing utility service through EU; (iii) access to capital with a “pure play” risk profile; (iv) clarification of certain property interests to ensure that PPL EU has the property rights necessary to continue to provide safe and reliable service to customers; and (v) retail competition. (Joint Applicants’ Statement No. 2, p. 19)

52. The primary purpose of the Proposed Transaction is to separate PPL Corp.’s existing deregulated electric generation and retail electric and gas supply business lines from its regulated electric utility business lines. As a result, PPL Corp. will no longer be in the generation or retail business in the Commonwealth. (Joint Applicants’ Statement No. 2, pp. 13-14)

53. The spin-off its deregulated electric generation and retail electric and gas supply business lines will allow PPL Corp. to focus its activities in the Commonwealth on the core function of providing electric transmission and distribution services through PPL EU. (Joint Applicants’ Statement No. 2, pp. 13-14)

54. The spin-off of PPL Corp.’s deregulated electric generation and retail electric and gas supply business lines also will allow PPL Corp. to access to capital with a “pure play” risk profile. Following the closing of the Proposed Transaction, PPL Corp. will be focused on only its regulated businesses and will present a clearer investment profile to the capital markets. (Joint Applicants’ Statement No. 2, p. 14)

55. The transfer of PPL EnergyPlus to Talen Energy as part of the spin-off will help disassociate the deregulated generation and retail supply businesses from the PPL brand and reduce the costs associated with review by PPL EU, the Commission, and FERC to ensure

regulatory compliance with mandatory separation standard and codes of conduct for entities affiliated with the regulated utility. (Joint Applicants' Statement No. 2, p. 15)

56. The Proposed Transaction provides for the phase out of the use of the "PPL" name by PPL EnergyPlus after the closing. Some commentators have contended that use of an electric distribution company's "family" name may confuse customers and provide a benefit to an affiliated electric generation supplier. Without commenting on the appropriateness of such contentions, the Proposed Transaction will put this issue to rest, at least for PPL EU, as PPL EnergyPlus will no longer be using the "PPL" name. (Joint Applicants' Statement No. 2, p. 15)  
(Joint Applicants' Statement No. 2, p. 15)

57. The PPL IEC and PPL EnergyPlus assets are closely aligned with the generation portion of the business of PPL Energy Supply and its subsidiaries and are not aligned in any way with the regulated electric transmission and distribution business of PPL EU. The transfer of PPL Corp.'s indirect ownership of PPL IEC and PPL EnergyPlus will not result in any harm to retail competition. (Joint Applicants' Statement No. 2, p. 16)

58. All of the operating and management employees of PPL IEC immediately prior to closing of the Proposed Transaction will remain employees of PPL IEC following the closing of the Proposed Transaction as required to meet the continuing operations and management needs of the business. (Joint Applicants' Statement No. 3, p. 6)

59. The transfer of the indirect ownership interest in PPL IEC is expected to have no substantial adverse impact on the employees of PPL IEC. (Joint Applicants' Statement No. 3, p. 6)

60. There will not be any substantive changes to PPL IEC's existing tariffs as a result of the Proposed Transaction. (Joint Applicants' Statement No. 3, p. 6)

61. PPL IEC plans to file appropriate tariff supplements, upon or after closing of the Proposed Transaction, to reflect a change in the corporate name for PPL IEC. (Joint Applicants' Statement No. 3, p. 6)

62. Talen Energy has committed pursuant to the Transaction Agreement that, for at least three years following the closing of the Proposed Transaction, it will maintain its headquarters in Pennsylvania and will use commercially reasonable efforts to maintain competitive retail energy supply business activity in the City of Allentown's Neighborhood Improvement Zone. (Joint Applicants' Statement No. 1, p. 26)

**H. TECHNICAL, LEGAL, AND FINANCIAL FITNESS TO OWN AND OPERATE PPL IEC**

63. Riverstone, Talen Energy, and PPL IEC are technically, legally, and financially fit to own and operate PPL IEC, as required by Section 1102 and 1103 of the Public Utility Code.

64. PPL IEC is solely in the business of transporting oil and natural gas to electric generating stations. The current operating and management employees of PPL IEC have continually operated and maintained the utility facilities in a safe and reliable manner, and PPL IEC has a proven track record of pipeline safety. All of the operating and management employees of PPL IEC immediately prior to the closing of the Proposed Transaction will remain employees of PPL IEC following the closing of the Proposed Transaction as required to meet the continuing operations and management needs of the business. (Joint Applicants' Statement No. 3, pp. 8-9)

65. The operational and management experience of PPL Energy Supply in operating electric generating stations will be transferred to Talen Energy as part of the Proposed Transaction and combined with similar expertise from the generating facilities to be contributed to Talen Energy by the RJS Entities. This combined skill of Talen Energy in managing and

operating electric generation stations and acquiring fuel to power such stations will provide the necessary expertise to manage and operate PPL IEC in its function of providing oil and natural gas to electric generating stations post-closing. (Joint Applicants' Statement No. 1, pp. 25-26; Joint Applicants' Statement No. 3, p. 9)

66. Talen Energy will consist of a combination of PPL Corp.'s and the RJS Entities' competitive electric generation and related businesses. The RJS Entities are in compliance in all material respects with federal law and state law in the jurisdictions in which they operate. None of the entities have been prosecuted, indicted, or investigated for criminal activity. (Joint Applicants' Statement No. 1, p. 28)

67. As a publicly traded company, Talen Energy will fully comply with the Sarbanes-Oxley corporate governance and accountability requirements. Talen Energy also will fully comply with the corporate governance standards contained in the New York Stock Exchange's Listed Company Manual. (Joint Applicants' Statement No. 1, p. 28)

68. Upon the consummation of the Proposed Transaction, Talen Energy is expected to be a publicly traded corporation whose common shares are traded on the New York Stock Exchange ("NYSE"). As a publicly traded company, Talen Energy will be subject to the public company reporting, management controls and governance requirements under applicable federal securities laws and the NYSE rules. (Settlement ¶ 30)

69. The day-to-day management and operations of Talen Energy will be directed and controlled by Talen Energy's board of directors. In accordance with the rules of the NYSE applicable to NYSE-listed companies, at the time of the closing of the Proposed Transaction (or within applicable "phase-in" periods under the NYSE rules), Talen Energy will have a board of

directors, of which a majority are independent directors as that term is defined by the NYSE rules. (Settlement ¶ 31)

70. Talen Energy will have substantial financial resources available to operate PPL IEC. (Joint Applicants' Statement No. 1, pp. 23-24)

71. Talen Energy also is making arrangements to have a revolving credit facility available to it upon closing of the Proposed Transaction. The facility would be fully committed and available to Talen Energy upon the closing of the Proposed Transaction. (Joint Applicants' Statement No. 1, p. 24)

72. Currently, there is no debt at or allocated to PPL IEC, and PPL IEC is expected to have approximately \$8.3 million in equity as of December 31, 2014. This no-debt capital structure for PPL IEC is expected to continue following the closing of the Proposed Transaction. (Joint Applicants' Statement No. 1, p. 24)

73. As of June 30, 2014, the pro forma capital structure of Talen Energy, which will indirectly own PPL IEC upon closing of the Proposed Transaction, was 45% debt and 55% common equity. There are no present plans to materially increase the amount of indebtedness from this level upon closing of the Proposed Transaction. PPL IEC will not guarantee the debt of Talen Energy of any of its other affiliates. (Joint Applicants' Statement No. 1, p. 24)

74. The Applicants commit that there will not be any claim for such costs in PPL IEC's or PPL EU's future rate filings. (Joint Applicants' Statement No. 1, p. 25)

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Joint Application of PPL Interstate Energy :  
Company and PPL Electric Utilities :  
Corporation for All of the Necessary : Docket Nos. A-2014-2435752  
Authority, Approvals, and Certificates of : A-2014-2435833  
Public Convenience (1) for the Transfer of :  
PPL Corporation's Ownership Interests in :  
PPL Interstate Energy Company to Talen :  
Energy Corporation, and Certain Post- :  
Closing Transactions Associated therewith; :  
(2) for the Transfer of Certain Property :  
Interests Between PPL Electric Utilities :  
Corporation and PPL Energy Supply, LLC :  
and its Subsidiaries in Conjunction with :  
the Transfer of All of the Interests of PPL :  
Energy Supply, LLC and its Subsidiaries to :  
Talen Energy Corporation; (3) for any :  
Modification or Amendment of Associated :  
Affiliated Interest Agreements; and (4) for :  
any Other Approvals Necessary to :  
Complete the Contemplated Transactions :

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**PROPOSED CONCLUSIONS OF LAW OF  
PPL INTERSTATE ENERGY COMPANY AND  
PPL ELECTRIC UTILITIES CORPORATION**

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TO THE HONORABLE ADMINISTRATIVE LAW JUDGE SUSAN D. COLWELL

PPL Interstate Energy Company ("PPL IEC") and PPL Electric Utilities Corporation ("PPL EU") (hereinafter, PPL IEC and PPL EU are collectively referred to as the "Applicants") submit these Proposed Conclusions of Law in support of the Joint Petition for Approval of Settlement of All Issues ("Settlement"), and respectfully request that Administrative Law Judge Susan D. Colwell ("ALJ") and the Pennsylvania Public Utility Commission ("Commission") adopt the following conclusions of law in the above-caption proceeding:

**A. LEGAL STANDARDS**

**1. Section 1102(a)(3)**

1. Section 1102(a)(3) of the Public Utility Code, 66 Pa.C.S. § 1102(a)(3), provides, in pertinent part, that the Commission's prior approval, evidenced by a certificate of public convenience, is required;

For any public utility or an affiliated interest of a public utility . . . to acquire from, or to transfer to, any person or corporation . . . by any method or devise whatsoever, including the sale or transfer of stock and including a consolidation, merger, sale or lease, the title to, or the possession or use of, any tangible or intangible property used or useful in the public service.

2. The Commission issued a Statement of Policy on October 22, 1994, to establish guidance regarding the circumstances under which a transfer of voting interest constitutes a change in *de facto* control of the utility, which provides, in pertinent part, as follows:

- (1) A transaction or series of transactions resulting in a new controlling interest is jurisdictional when the transaction or transactions result in a different entity becoming the beneficial holder of the largest voting interest in the utility or parent, regardless of the tier. A transaction or series of transactions resulting in the elimination of a controlling interest is jurisdictional when the transaction or transactions result in the dissipation of the largest voting interest in the utility or parent, regardless of the tier.
- (2) For purposes of this section, a controlling interest is an interest, held by a person or group acting in concert, which enables the beneficial holders to control at least 20% of the voting interest in the utility or its parent, regardless of the remoteness of the transaction. In determining whether a controlling interest is present, voting power arising from a contingent right shall be disregarded.

52 Pa. Code § 69.901 ("Policy Statement"). A statement of policy is neither a rule nor precedent, but merely an announcement to the public of the policy which the agency hopes to implement in future rulemakings or adjudications. *Department of Environmental Resources v.*

*Rushton Mining Company*, 591 A.2d 1168,1173 (Pa. Cmwlth. 1991). A policy statement does not establish a binding norm or obligation. *Id.*

3. Under the Commission's Policy Statement, approval is required for any transaction that creates or eliminates a controlling interest and results in a different entity becoming the largest voting interest in a public utility company. The determination of the interests involved in a transaction considers all tiers of interest in the utility or parent of the utility and, thus, both direct and indirect ownership interests in a utility are considered under the Commission's Policy Statement. *Policy Statement Regarding Interpretation of 66 Pa.C.S. § 1102(a)(3)*, Docket No. M-930490, 1994 Pa. PUC LEXIS 56 (September 13, 1994).

4. Under Sections 1102 and 1103, applicants must demonstrate that the party to whom the assets and service obligations are being transferred is legally, technically, and financially fit. *Seaboard Tank Lines*, 502 A.2d 762, 764 (Pa. Cmwlth. 1985); *Warminster Township Mun. Auth. v. Pa. PUC*, 138 A.2d 240, 243 (Pa. Super. 1958).

5. The Commission may issue a certificate of public convenience upon a finding that "the granting of such certificate is necessary or proper for the service, accommodation, convenience, or safety of the public." 66 Pa.C.S. § 1103(a). This standard requires the Commission to find that the elements of the proposed transaction within its jurisdiction will "affirmatively promote the service, accommodation, convenience, or safety of the public in some substantial way." *City of York v. Pa. PUC*, 449 Pa. 136, 151, 295 A.2d 825, 828 (1972).

6. The "substantial public interest" standard is satisfied by a simple preponderance of the evidence of benefits, and such burden can be met by showing a likelihood or probability of public benefits that need not be quantified or guaranteed. *Popowsky v. Pa. PUC*, 594 Pa. 583, 611, 937 A.2d 1040, 1057 (2007). Further, the substantial public benefit test does not require

that every customer receive a benefit from the Proposed Transaction. *Popowsky*, at 617-18, 937 A.2d at 1061.

**2. Chapter 21**

7. Under Section 2102 of the Public Utility Code, Commission approval is required for any affiliated interest contract before it can become effective. 66 Pa.C.S. § 2102(a).

8. Section 2101(a) of the Public Utility Code defines an “affiliated interest” to include the following: “(1) Every corporation and person owning or holding directly or indirectly 5% or more of the voting securities of such public utility; and (2) Every corporation and person in any chain of successive ownership of 5% or more of voting securities.” 66 Pa.C.S. § 2101(a)(1)(2).

9. Under Section 2103 of the Public Utility Code, the Commission has continuing supervision and jurisdiction over affiliated interest contracts, including the “modification or amendment” of such contracts or agreements. 66 Pa.C.S. § 2103.

10. Section 2102(b) and (c) of the Public Utility Code provide the standard for Commission review of an affiliate interest agreement. 66 Pa.C.S. §§ 2102(b) and (c).

**3. Sections 2210(a) and 2811(e)**

11. Under Section 2210(a)(1) of the Public Utility Code, the Commission is required to consider whether a proposed merger or consolidation of a natural gas distribution company or natural gas supplier is likely to result in anticompetitive or discriminatory conduct. 66 Pa.C.S. § 2210(a).

12. Under Section 2210(a)(2) of the Public Utility Code, the Commission is required to consider the impact that a proposed merger or consolidation of a natural gas distribution company may have on the employees of the natural gas distribution company. 66 Pa.C.S. § 2210(a)(2).

13. Under Section 2811(e)(1) of the Public Utility Code, the Commission, to the extent it otherwise has jurisdiction over a transaction, is required to consider whether a proposed merger or consolidation of an electric distribution company or an electric generation supplier is likely to result in anticompetitive or discriminatory conduct. 66 Pa.C.S. § 2811(e)(1).

#### **4. Approval of Settlements**

14. Commission policy promotes settlements. *See* 52 Pa. Code § 5.231.

15. Settlements lessen the time and expense that parties must expend litigating a case and, at the same time, conserve precious administrative resources. The Commission has indicated that settlement results are often preferable to those achieved at the conclusion of a fully litigated proceeding. *See* 52 Pa. Code § 69.401.

16. In order to accept a settlement, the Commission must first determine that the proposed terms and conditions are in the public interest. *Pa. PUC v. York Water Co.*, Docket No. R-00049165 (Oct. 4, 2004); *Pa. PUC v. C.S. Water and Sewer Assocs.*, 74 Pa. P.U.C. 767 (1991).

#### **B. THE SETTLEMENT OF THE TRANSACTION IS IN THE PUBLIC INTEREST**

17. The proposed “spinoff” of PPL Corporation’s (“PPL Corp.”) competitive generation and retail electric and natural gas supply businesses to its shareowners and the combination of these businesses with the electric generation businesses of Raven Power Holdings LLC (“Raven”), C/R Energy Jade, LLC (“Jade”), and Sapphire Power Holdings LLC (“Sapphire” and together with Raven and Jade hereinafter collectively referred to as the “RJS Entities”) to form Talen Energy does not require Commission approval. *See* Electricity Generation Customer Choice and Competition Act, P.L. 802, No. 138, effective January 1, 1997, 66 Pa.C.S. §§ 2801-2812; *see also Application Of Pennsylvania Power & Light Company For*

*Approval Of Restructuring Plan Under Section 2806 Of The Public Utility Code*, Docket No. Docket No. R-00973954, 1998 Pa. PUC LEXIS 131 (June 15, 1998). Certain ancillary transfers necessary and appropriate to this fundamental transaction require Commission approval.

18. The Commission has previously found the transfer of deregulated assets of Duquesne Light Company, Metropolitan Edison Company, and Pennsylvania Electric Company to third-parties to be in the public interest. See *Application of Duquesne Light Company for Approval of Its Restructuring Plan Under Section 2806 of the Public Utility Code*, Docket Nos. R-00974104, *et al.*, 1998 Pa. PUC LEXIS 163 (May 29, 1998); *Application of Metropolitan Edison Company for Approval of Restructuring Plan Under Section 2806 of the Public Utility Code*, Docket Nos. R-00974008, *et al.*, 1998 Pa. PUC LEXIS 160 (June 30, 1998); *Application of Pennsylvania Electric Company for Approval of Restructuring Plan Under Section 2806 of the Public Utility Code*, Docket Nos. R-00974009, *et al.*, 1998 Pa. PUC LEXIS 162 (June 30, 1998).

19. The Transaction described in the Joint Application, subject to the terms and conditions contained in the Settlement, is necessary and proper for the service, accommodation, convenience, or safety of the public, as required by Section 1103 of the Public Utility Code, 66 Pa.C.S. § 1103.

20. The Transaction described in the Joint Application, subject to the terms and conditions contained in the Settlement, will affirmatively promote the service, accommodation, convenience, or safety of the public in some substantial way, as required by *City of York v. Pa. PUC*, 449 Pa. 136, 151, 295 A.2d 825, 828 (1972).

**1. The Transfer of PPL Corp.'s Indirect Ownership Interest in PPL IEC**

21. The transfer of PPL Corp.'s indirect ownership interests in PPL IEC is subject to the provision of Section 1102(a)(3), 66 Pa.C.S. § 1102(a)(3), because it transfers PPL Corp.'s

ownership interests in PPL IEC to Talen Energy, and because it creates a new controlling interest in PPL IEC.

22. The transfer of PPL Corp.'s indirect interests in PPL IEC to Talen Energy is in the public interest and is approved pursuant to Section 1102(a)(3), 66 Pa.C.S. § 1102(a)(3).

**2. Acquisition of Riverstone's Indirect Ownership Interest in PPL IEC**

23. The acquisition by Riverstone Holdings LLC ("Riverstone"), through either the RJS Entities or an existing or newly formed holding company that will be wholly owned by the RJS Entities and controlled by Raven (the "RJS SPE"), of a 35% indirect interest in PPL IEC is subject to 52 Pa. Code § 69.901.

24. Riverstone's acquisition of a 35% indirect controlling interest in PPL IEC, through the RJS Entities or the RJS SPE, is in the public interest and is approved pursuant to Section 1102(a)(3), 66 Pa.C.S. § 1102(a)(3).

25. Riverstone, Talen Energy, and PPL IEC are technically, legally, and financially fit to own and operate PPL IEC, as required by Section 1102 and 1103 of the Public Utility Code, 66 Pa.C.S. §§ 1102 and 1103.

26. Subject to the terms and conditions of the Settlement, the anticipated future sell-down of the shares of Talen Energy's common stock held by the RJS Entities (or the RJS SPE) or entities that are ultimately controlled by Riverstone over time to less than a combined 20% of the outstanding shares of Talen Energy's common stock as part of Riverstone's ordinary course of management of its private equity portfolio interests is in the public interest and approved pursuant to Section 1102(a)(3), 66 Pa.C.S. § 1102(a)(3).

27. Subject to the terms and conditions of the Settlement, the potential future internal reorganizations that may occur from time to time within Riverstone's corporate structure as part

of Riverstone's ordinary course of management of its private equity portfolio interests are in the public interest and approved pursuant to Section 1102(a)(3), 66 Pa.C.S. § 1102(a)(3).

**3. Transfer and Clarification of Property Interests**

**a. Transmission Rights-of-Way**

28. Section 1102(a)(3), 66 Pa.C.S. § 1102(a)(3), does not apply to the reaffirmation of PPL EU's existing transmission rights-of-way located on properties of PPL Energy Supply and/or its subsidiaries set forth in Joint Applicants' Exhibit No. 1, Appendix H (REVISED) because these agreements are simply memorializing existing rights and no consideration will be exchanged.

29. To the extent that approval is required with respect to these agreements, the reaffirmation of the existing transmission rights-of-way set forth in Joint Applicants' Exhibit No. 1, Appendix H (REVISED) is in the public interest and is approved pursuant to Section 1102(a)(3), 66 Pa.C.S. § 1102(a)(3).

**b. Distribution Rights-of-Way**

30. Section 1102(a)(3), 66 Pa.C.S. § 1102(a)(3), does not apply to the reaffirmation of PPL EU's existing distribution rights-of-way located on properties of PPL Energy Supply and/or its subsidiaries set forth in Joint Applicants' Exhibit No. 1, Appendix I because these agreements are simply memorializing existing rights and no consideration will be exchanged.

31. To the extent that approval is required with respect to these agreements, the reaffirmation of the existing distribution rights-of-way set forth in Joint Applicants' Exhibit No. 1, Appendix I is in the public interest and is approved pursuant to Section 1102(a)(3), 66 Pa.C.S. § 1102(a)(3).

**c. Substation Sites**

32. Section 1102(a)(3), 66 Pa.C.S. § 1102(a)(3), does not apply to the transfer or clarification of the property interests for the existing PPL EU substation facilities located on properties of PPL Energy Supply and/or its subsidiaries set forth in Joint Applicants' Exhibit 1, Appendix J (REVISED) because these agreements are simply transferring or clarifying existing rights and no consideration will be exchanged.

33. To the extent that approval is required with respect to these agreements, the reaffirmation of the existing substation sites set forth in Joint Applicants' Exhibit 1, Appendix J (REVISED) is in the public interest and is approved pursuant to Section 1102(a)(3), 66 Pa.C.S. § 1102(a)(3).

**d. Miscellaneous Properties and Interests owned by PPL Energy Supply and/or its Subsidiaries that Currently are used by PPL EU**

34. Section 1102(a)(3), 66 Pa.C.S. § 1102(a)(3), does not apply to the reaffirmation of PPL EU's existing rights and use of the existing fiber-optic network cabling, telecommunication equipment, and control equipment houses located on properties of PPL Energy Supply and/or its subsidiaries set forth in Joint Applicants' Exhibit 1, Appendix K because these easements and/or license agreements are simply reaffirming existing rights and uses.

35. To the extent that approval is required with respect to these agreements, the reaffirmation of the existing rights and use of the existing fiber-optic network cabling, telecommunication equipment, and control equipment houses set forth in Joint Applicants' Exhibit 1, Appendix K is in the public interest and is approved pursuant to Section 1102(a)(3), 66 Pa.C.S. § 1102(a)(3).

**e. Miscellaneous Properties and Interests owned by PPL EU that Currently are used by PPL Energy Supply and/or its Subsidiaries**

36. Section 1102(a)(3), 66 Pa.C.S. § 1102(a)(3), does not apply to the update and continuation of the easements between PPL EU and PPL Martins Creek, LLC for combustion turbine generator facilities located on PPL EU property set forth in Joint Applicants' Exhibit 1, Appendix L (REVISED) because the update and continuation of these easements agreements are simply reaffirming existing rights and uses.

37. To the extent that approval is required with respect to these agreements, the update and continuation of these easements agreements for combustion turbine generator facilities located on PPL EU property set forth in Joint Applicants' Exhibit 1, Appendix L (REVISED) is in the public interest and is approved pursuant to Section 1102(a)(3), 66 Pa.C.S. § 1102(a)(3).

38. Section 1102(a)(3), 66 Pa.C.S. § 1102(a)(3), does not apply to the termination of the agreements for use by PPL Energy Supply and its subsidiaries of the PPL EU office space or record center set forth in Joint Applicants' Exhibit 1, Appendix L (REVISED) because use of the office space and records center will cease upon closing of the Proposed Transaction.

39. To the extent that approval is required, the termination of the agreements for use by PPL Energy Supply and its subsidiaries of PPL EU's office space or record center set forth in Joint Applicants' Exhibit 1, Appendix L (REVISED) is in the public interest and is approved pursuant to Section 1102(a)(3), 66 Pa.C.S. § 1102(a)(3).

40. Section 1102(a)(3), 66 Pa.C.S. § 1102(a)(3), does not apply to the permanent memorialization of the license agreements for PPL Susquehanna's air monitoring stations located on PPL EU property set forth in Joint Applicants' Exhibit 1, Appendix L (REVISED) because these license agreements simply more permanently memorialize existing rights.

41. To the extent that approval is required with respect to these license agreements, these license agreements for PPL Susquehanna's air monitoring stations located on PPL EU property set forth in Joint Applicants' Exhibit 1, Appendix L (REVISED) are in the public interest and approved pursuant to Section 1102(a)(3), 66 Pa.C.S. § 1102(a)(3).

42. Section 1102(a)(3), 66 Pa.C.S. § 1102(a)(3), does not apply to the reaffirmation of access/use by subsidiaries of PPL Energy Supply of existing fiber-optic network cabling and other telecommunication equipment located on PPL EU's property set forth in Joint Applicants' Exhibit 1, Appendix L (REVISED) because these easements and/or license agreements are simply reaffirming existing rights and uses.

43. To the extent that approval is required with respect to these agreements, the reaffirmation of the existing rights and use of the existing fiber-optic network cabling and telecommunication equipment set forth in Joint Applicants' Exhibit 1, Appendix L (REVISED) is in the public interest and approved pursuant to Section 1102(a)(3), 66 Pa.C.S. § 1102(a)(3).

#### **4. The Termination or Revision of Intercompany Agreements**

44. Chapter 21 of the Public Utility Code does not apply to the intercompany agreements set forth in Joint Applicants' Exhibit 1, Appendix M (REVISED) that will remain in place unchanged after closing of the Proposed Transaction because PPL Energy Supply and its subsidiaries will no longer be affiliates of PPL EU after closing. In the alternative, to the extent that the Commission concludes that approval is required for these intercompany agreements that will remain in place unchanged after closing of the Proposed Transaction, these agreements are approved pursuant to Section 2102(a), 66 Pa.C.S. § 2102(a).

45. Section 2103 of the Public Utility Code, 66 Pa.C.S. § 2103, does not apply to the intercompany agreements set forth in Joint Applicants' Exhibit 1, Appendix N (REVISED) that will remain in place after closing of the Proposed Transaction but where the relevant PPL Energy

Supply subsidiaries will no longer be parties. To the extent that approval is required, the removal of the PPL Energy Supply and its subsidiaries as parties to these agreements is approved pursuant to Section 2103 of the Public Utility Code, 66 Pa.C.S. § 2103.

46. No further Commission approval is required under Chapter 21 of the Public Utility Code for the intercompany agreements set forth in Joint Applicants' Exhibit 1, Appendix M (REVISED) between PPL IEC and PPL Energy Supply subsidiaries that will remain in place after closing of the Proposed Transaction because PPL IEC will continue to be affiliated with PPL Energy Supply and its other subsidiaries post-closing and there will be no modification to these agreements. To the extent that approval is required, these agreements are approved pursuant to Section 2102, 66 Pa.C.S. § 2102(a).

47. Chapter 21 of the Public Utility Code does not apply to the interconnection agreements set forth in Joint Applicants' Exhibit 1, Appendix O (REVISED) that will terminate at closing of the Proposed Transaction and be replaced with Federal Energy Regulatory Commission ("FERC") jurisdictional *pro forma* interconnection agreements. These new agreements are subject to FERC jurisdiction. To the extent that approval is required, these agreements are approved pursuant to Section 2102, 66 Pa.C.S. § 2102(a).

##### **5. Retail Competition and Employees**

48. The Transaction, subject to the terms and conditions contained in the Settlement: (1) will not result in any anti-competitive or discriminatory conduct, including the unlawful exercise of market power in the retail natural gas or electric market, as required by Sections 2210(a)(1) and 2811(e) of the Public Utility Code, 66 Pa.C.S. § 2210(a)(1); and (2) will not produce any unreasonable adverse effect on the employees of the Applicants or on any authorized collective bargaining agent representing those employees, as required by Section 2210(a)(2) of the Public Utility Code, 66 Pa.C.S. § 2210(a)(2).

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Joint Application of PPL Interstate Energy :  
Company and PPL Electric Utilities :  
Corporation for All of the Necessary : Docket Nos. A-2014-2435752  
Authority, Approvals, and Certificates of : A-2014-2435833  
Public Convenience (1) for the Transfer of :  
PPL Corporation's Ownership Interests in :  
PPL Interstate Energy Company to Talen :  
Energy Corporation, and Certain Post- :  
Closing Transactions Associated therewith; :  
(2) for the Transfer of Certain Property :  
Interests Between PPL Electric Utilities :  
Corporation and PPL Energy Supply, LLC :  
and its Subsidiaries in Conjunction with :  
the Transfer of All of the Interests of PPL :  
Energy Supply, LLC and its Subsidiaries to :  
Talen Energy Corporation; (3) for any :  
Modification or Amendment of Associated :  
Affiliated Interest Agreements; and (4) for :  
any Other Approvals Necessary to :  
Complete the Contemplated Transactions :

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**PROPOSED ORDERING PARAGRAPHS OF  
PPL INTERSTATE ENERGY COMPANY AND  
PPL ELECTRIC UTILITIES CORPORATION**

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TO THE HONORABLE ADMINISTRATIVE LAW JUDGE SUSAN D. COLWELL

PPL Interstate Energy Company ("PPL IEC") and PPL Electric Utilities Corporation ("PPL EU") (hereinafter, PPL IEC and PPL EU are collectively referred to as the "Applicants") submit these Proposed Ordering Paragraphs in support of the Joint Petition for Approval of Settlement of All Issues ("Settlement"), and respectfully request that Administrative Law Judge Susan D. Colwell ("ALJ") and the Pennsylvania Public Utility Commission

(“Commission”) adopt the following ordering paragraphs in the final order entered in the above-caption proceeding:

1. The Joint Petition for Petition for Approval of Settlement of All Issues submitted by PPL Interstate Energy Company, PPL Electric Utilities Corporation, and the Office of Small Business Advocate at Docket Nos. A-2014-2435752 and A-2014-2435833, including all terms and conditions, is incorporated herein and hereby approved.

2. The Joint Application of PPL Interstate Energy Company and PPL Electric Utilities Corporation requesting all necessary authority, approvals and certificates of public convenience pursuant to Sections 1102(a)(3), 2101(a), 2210(a), and 2811(e) of the Public Utility Code, 66 Pa.C.S. §§ 1102(a)(3), 2102(a), 2210(a), and 2811(e), authorizing: (1) the transfer of PPL Corporation’s indirect ownership interests in PPL Interstate Energy Company, which holds a certificate of public convenience to transport oil and natural gas only to generating facilities, to Talen Energy Corporation; (2) the acquisition by Riverstone Holdings LLC, through Raven Power Holdings LLC, C/R Energy Jade, LLC, and Sapphire Power Holdings LLC or an existing or newly formed holding company, of an indirect thirty-five percent (35%) ownership interest in PPL Interstate Energy Company via its ownership interest in Talen Energy Corporation; (3) the anticipated future sell-down over time of the interests in Talen Energy Corporation held by Raven Power Holdings LLC, C/R Energy Jade, LLC, and Sapphire Power Holdings LLC, the above-referenced holding company, or entities that are ultimately controlled by Riverstone Holdings LLC, which will result in the dissipation of Riverstone Holdings LLC’s indirect ownership interest in PPL Interstate Energy Company to less than a combined 20% of the outstanding shares of the common stock of Talen Energy Corporation; (4) the potential future

internal corporate reorganizations within Riverstone Holdings LLC; (5) the transfer/clarification of property rights between PPL Energy Supply, LLC and/or its subsidiaries and PPL Electric Utilities Corporation; (6) the termination or revision of intercompany agreements between PPL Energy Supply LLC and/or its subsidiaries and PPL Electric Utilities Corporation or PPL Interstate Energy Company; and (7) any other approvals necessary to complete the transactions set forth in the Joint Application, is hereby approved, subject to the terms and conditions of the Joint Petition for Settlement of All Issues.

3. That all required Certificates of Public Convenience be issued evidencing the Pennsylvania Public Utility Commission's approval of the transactions set forth in the Joint Application, subject to the terms and conditions of the Joint Petition for Approval of Settlement of All Issues.

4. That any protest or petition to intervene filed in this proceeding that is not satisfied or withdrawn pursuant to the terms of the Joint Petition for Approval of Settlement of All Issues is hereby denied.

5. That the matters at Docket Nos. A-2014-2435752 and A-2014-2435833 are hereby marked closed.

# **Appendix “B”**



from the Public Utility Commission (“Commission”) pursuant to Sections 1102(a)(3), 2101(a), 2210(a), and 2811(e) of the Public Utility Code, 66 Pa. C.S. §§ 1102(a)(3), 2102(a), 2210(a), and 2811(e), authorizing: (1) the transfer of all of PPL Corporation’s (“PPL Corp”) ownership interests in PPL IEC to Talen Energy Corporation (“Talen Energy”), and certain post-closing transactions; (2) the transfer of certain property interests between PPL EU and subsidiaries of PPL Energy Supply, LLC (“PPL Energy Supply”) in order to fully separate and define certain property rights among PPL EU and the PPL Energy Supply subsidiaries; and (3) to the extent required, any modifications or amendments to affiliated interest agreements among and between PPL EU and PPL Energy Supply and its subsidiaries, including PPL IEC.

The Small Business Advocate is authorized and directed to represent the interests of the small business consumers of utility services in the Commonwealth of Pennsylvania under the provisions of the Small Business Advocate Act, Act 181 of 1988, 73 P.S. §§ 399.41 - 399.50. Pursuant to that statutory authority, on September 5, 2014, the Office of Small Business Advocate (“OSBA”) filed a Notice of Intervention and Answer to the Joint Petition.

The OSBA actively participated in the negotiations that led to the proposed settlement and is a signatory to the Joint Petition for Settlement of All Issues (“*Settlement*”). The OSBA submits this statement in support of the *Settlement*.

## **The Settlement**

The *Settlement* sets forth a list of issues that were resolved through the negotiation process. The following issues were of particular significance to the OSBA when it concluded that the *Settlement* was in the best interests of PPL's small business customers.

### **1. Controlling Interest**

The Joint Application proposes to cause PPL Corporation to spin off its deregulated electric generation and retail electric and gas supply businesses to the shareowners of PPL Corporation and then immediately combine that business with the competitive generation assets owned by subsidiaries of the RJS Entities, which are ultimately controlled by Riverstone Holdings LLC ("Riverstone"), to form Talen Energy. Once the proposed transaction is completed, PPL Corp's shareowners will own 65% of Talen Energy and Riverstone will indirectly own 35% of Talen Energy. The PPL Corporation assets being transferred to Talen Energy include certain oil and gas pipeline assets that are regulated by the Commission.

The Joint Applicants originally requested that the Commission make a finding that Riverstone (directly or indirectly) would not have an actual controlling interest in Talen Energy. Joint Applicants' Statement No. 1, at 12. As set forth in the OSBA's Protest, the OSBA recommended that the Commission make a finding that a 35% interest owned by Riverstone, under both the facts of this case and Commission policy, *does* constitute a controlling interest. *See* 52 Pa. Code § 69.901(b) Utility Stock Transfer Under 66 Pa. C.S. § 1 102(a)(3). *See also*, OSBA Protest, at Paragraph 9.

The *Settlement* proposes to drop the Joint Applicants' request that the Commission enter a finding that Riverstone would not have a controlling interest in Talen Energy by acknowledging that the Commission's Statement of Policy on "Utility Stock Transfer Under 66

Pa.C.S. § 1102(a)(3)” (“Stock Transfer Policy”), 52 Pa. Code § 69.901, applies to the proposed transaction. *See Settlement*, at Paragraph 25. The OSBA fully supports the resolution of this issue, as it comports with the OSBA’s view of the case on this legal issue. Specifically, Riverstone’s 35% interest is clearly a controlling interest under Commission Policy:

For purposes of this section, a controlling interest is an interest, held by a person or a group acting in concert, which enables the beneficial holders to control at least 20% of the voting interest in the utility or its parent, regardless of the remoteness of the transaction. In determining whether a controlling interest is present, voting power arising from a contingent right shall be disregarded.

52 Pa. Code § 69.901(b)(2).

Overruling this policy would be highly improper in this proceeding given the facts of the case. Riverstone is an investment firm that plans to sell down its interest in Talen. The OSBA would strongly prefer to avoid a precedent whereby an investment firm can simply buy up Commonwealth utility assets, resell them in short order, and escape Commission oversight by simply claiming that they “are not a controlling interest.”

## **2. Future Transactions**

The Joint Applicants also originally requested pre-approval from the Commission for certain “potential future sell-down transactions” and “potential future internal reorganizations” for Riverstone. The OSBA opposed such carte blanche pre-approvals, and argued that Riverstone can submit the requisite requests for approval to the Commission when necessary.

The *Settlement* addresses this issue by proposing to make Riverstone’s anticipated future sell-down transactions of the shares of Talen Energy’s common stock to less than a combined 20% of the outstanding shares subject to certain conditions and qualifications. *See Settlement*, at Paragraph 32.

The conditions and qualifications proposed by the *Settlement* allow the Commission to maintain a degree of control and oversight over the activities of Riverstone. First, if Riverstone's controlling interest in Talen falls below 20% percent, PPL IEC will notify the Commission and the parties of this development. *See Settlement*, at Paragraph 32(b). Second, if another entity acquires 20% or more of an interest in Talen, PPL IEC shall apply for a certificate of public convenience under 66 Pa.C.S. § 1102(a)(3) prior to the consummation of the transaction. *Id.*, at Paragraph 32(c).

The OSBA supports these proposals, as set forth in the *Settlement*, as a just and reasonable method to allow Riverstone freedom of operation while keeping the Commission fully informed of any future transactions that would alter the controlling interest of Talen.

**Conclusion**

For the reasons set forth in the *Settlement*, as well as the additional factors that are enumerated in this statement, the OSBA supports the proposed *Settlement* and respectfully requests that the ALJ and the Commission approve the *Settlement* in its entirety.

Respectfully submitted,

  
\_\_\_\_\_  
Steven C. Gray  
Assistant Small Business Advocate  
Attorney ID No. 77538

Office of Small Business Advocate  
300 North Second Street, Suite 1102  
Harrisburg, PA 17101

Dated: December 23, 2014

# Appendix “C”

COMMONWEALTH OF PENNSYLVANIA



OFFICE OF CONSUMER ADVOCATE

555 Walnut Street, 5th Floor, Forum Place  
Harrisburg, Pennsylvania 17101-1923  
(717) 783-5048  
800-684-6560

FAX (717) 783-7152  
consumer@paoca.org

December 23, 2014

Honorable Susan D. Colwell  
Office of Administrative Law Judge  
Pennsylvania Public Utility Commission  
Commonwealth Keystone Building  
400 North Street  
Harrisburg, PA 17105-3265

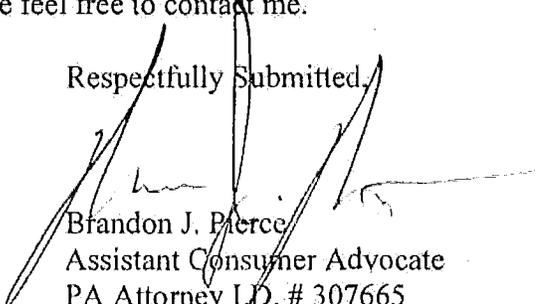
RE: Joint Application of PPL Interstate Energy Company and PPL Electric  
Utilities Corporation for All of the Necessary Authority, Approvals, and  
Certificates of Public Convenience  
Docket No. A-2014-2435752  
A-2014-2435833

Dear Judge Colwell:

By this letter, please be advised that the Office of Consumer Advocate does not oppose  
the Joint Petition for Settlement of All Issues, in the above-referenced proceeding.

If you have any questions, please feel free to contact me.

Respectfully Submitted,

  
Brandon J. Pierce  
Assistant Consumer Advocate  
PA Attorney I.D. # 307665

# **Appendix “D”**

333 OAK LANE  
BLOOMSBURG, PA 17815  
SCOTT.J.RUBIN@GMAIL.COM

SCOTT J. RUBIN  
ATTORNEY • CONSULTANT

TEL: (570) 387-1893  
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CELL: (570) 850-9317

December 29, 2014

Susan D. Colwell, Administrative Law Judge  
Pa. Public Utility Commission  
P.O. Box 3265  
Harrisburg PA 17105-3265

Re: Joint Application of PPL Interstate Energy  
Company and PPL Electric Utilities Corporation  
for All of the Necessary Authority, Approvals, and  
Certificates of Public Convenience  
Docket No. A-2014-2435752  
Docket No. A-2014-2435833

Dear ALJ Colwell:

Please be advised that the International Brotherhood of Electrical Workers, Local 1600, does not oppose the Joint Petition for Settlement of All Issues in the above-referenced proceeding. Please do not hesitate to contact me if you require additional information.

Sincerely,



Enclosure

cc: All parties of record