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September 10, 2012

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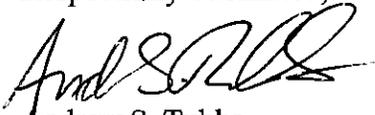
RE: Petition of PECO Energy Company for Approval of Its Default Service Program
Docket No. P-2012-2283641

Dear Secretary Chiavetta:

Enclosed are the Exceptions of PPL EnergyPlus, LLC for the above-referenced proceeding.

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

Respectfully Submitted,



Andrew S. Tubbs

AST/jl

Enclosures

cc: Honorable Dennis J. Buckley
Certificate of Service

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing **Exceptions** 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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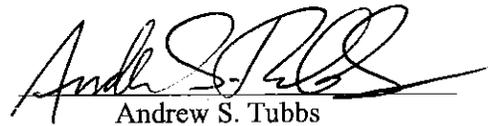
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Date: September 10, 2012


Andrew S. Tubbs

**BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

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

**EXCEPTIONS OF
PPL ENERGYPLUS, LLC**

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I. INTRODUCTION AND BACKGROUND

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

In this proceeding PPL EnergyPlus proposes that PECO be required to recover, through a non-bypassable rider, certain non-market based (“NMB”) transmission costs that are administratively set by PJM Interconnection, LLC (“PJM”). In particular, PPL EnergyPlus requests that PECO assume responsibility for the Generation Deactivation Charge imposed by PJM. As explained by PPL EnergyPlus, requiring PECO, as the default service provider, to recover administratively set transmission-related charges to address transmission system reliability problems caused by generation unit deactivation is appropriate. Moreover, as these charges are unknown and cannot be predicted or hedged by electric generation suppliers (“EGSs”), the recovery of these charges through a competitively neutral NMB Rider would improve the competitive market in the PECO service territory by reducing the risk and uncertainty associated with these charges for wholesale and retail suppliers. Namely, as proposed by PPL EnergyPlus, the NMB Rider would allow wholesale suppliers and EGSs to avoid placing unnecessary charges or unnecessary premiums on customers and eliminate an area that currently results in customer confusion.

As PPL EnergyPlus has limited its participation in this proceeding to advocacy of the NMB Rider for PJM Generation Deactivation Charges, PPL EnergyPlus does not take issue with the majority of the RD. However, as to PPL EnergyPlus’ sole issue, the RD recommends that the Commission reject PPL EnergyPlus’ proposal to shift responsibility for the recovery of

generation deactivation and other PJM charges from EGSs to PECO. RD at 47. In making this recommendation the RD's concludes that: (1) the record has not shown how changing the existing cost assignment of Generation Deactivation Charges will lead to actual reductions in market prices; and (2) the Competition Act requires that transition matters be addressed in a manner fair to all customers. As addressed below, in making this recommendation the RD provides no analysis of the evidence presented showing that the current method for allocating these charges to the EGSs has a detrimental effect on competition in PECO's service territory. Further, the RD does not identify what transitional matters were not addressed as part of this proceeding. Therefore, PPL EnergyPlus excepts to the RD in that it denies PPL EnergyPlus' request that PECO be responsible for collecting Generation Deactivation Charges on behalf of all its customers, whether or not they shop, via an NMB Rider.

II. EXCEPTIONS

Exception No. 1: The RD erred in recommending that the Commission reject the proposals of both PPL EnergyPlus and the Retail Energy Supply Association ("RESA") to shift responsibility for the recovery of generation deactivation charges and other PJM charges from EGSs to PECO. RD at 46-47.

III. ARGUMENT

A. IT IS APPROPRIATE FOR PECO TO COLLECT PJM GENERATION DEACTIVATION CHARGES.

As explained by PPL EnergyPlus, generators located in the PJM are required to provide at least ninety (90) days notice prior to deactivating a generation unit. PPL EnergyPlus Statement No. 1, p. 2. Upon receipt of a generator's intent to deactivate, PJM completes a study of its transmission system to determine whether the deactivation of the generation unit could

adversely affect system reliability. *Id.* If PJM determines that deactivating a unit poses a system reliability concern, PJM notifies the generation owner and provides an estimate for the period of time it will take to construct any transmission system upgrades to resolve the identified system reliability concerns. *Id.* At this point, the generator has two options: (1) elect to proceed with deactivating the generation unit; or (2) elect to receive compensation for costs to continue to operate the unit beyond its planned deactivation date pending the completion of transmission upgrades needed to maintain transmission system reliability. *Id.* If a generator elects to continue to operate the unit, pending the completion of the needed transmission upgrades, the generator is compensated for the costs associated with operating the plant. PPL EnergyPlus Statement No. 1, p. 3.

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

PJM Generation Deactivation charges are not market-based but instead are administratively set transmission-related charges to address transmission system reliability problems caused by generation unit deactivation. These charges are unknown and cannot be predicted. Indeed, the potential for significant Generation Deactivation charges is a real concern for market participants in Pennsylvania. Moreover, PJM is currently analyzing the potential

reliability impact of at least 8,000 MW of announced deactivations. PPL EnergyPlus Statement No. 1, p. 4.

PECO's second Default Service Program ("DSP II") will establish the terms and conditions of the competitive retail electric market in PECO's service territory for the period of June 1, 2013 through May 31, 2015. Generation Deactivation charges in the PECO zone were expected to end by May 2012. PPL EnergyPlus Statement No. 1-SR at 7; See LGA Exhibit 1. Therefore, as of May 2012 there is no imminent need for PECO or EGSs to collect additional PJM Generation Deactivation charges from their retail customers. However, as supported by the uncontested record evidence in this proceeding, PJM Generation Deactivation charges are potentially significant, and there is a real potential for additional PJM Generation Deactivation charges in the future. PPL EnergyPlus St. No. 1, p. 4. Further, no party challenged that these administratively set charges are unknown, and are not market risks that can be predicted or hedged by wholesale and retail suppliers. PPL EnergyPlus Statement No. 1, p. 3-4. The proposed NMB Rider would properly assign PECO the collection responsibility associated with both shopping and non-shopping transmission and reliability based costs to PECO. By assigning this responsibility to PECO, EGSs will no longer need to place these unnecessary charges and premiums on their customers. Indeed, EGSs would be able to make offers based on their cost of supply.

Moreover, the Commission has already validated the legal and factual basis for an EDC to acquire PJM-imposed non-competitive service charges on behalf of all suppliers, and to recover the cost of those services from all customers in the EDC's service territory on a competitively neutral basis. *See Petition of Pennsylvania Power Co. for Approval of Default Serv. Program for the Period from January 1, 2011 through May 31, 2013*, Docket No. P-2010-

2157862 (Nov. 17, 2010) (“Penn Power 2010 DSP Order”). The Commission has allowed these charges to be handled by the EDCs, without considering such treatment to be improper re-bundling. In the Penn Power 2010 DSP Order, the Commission approved a settlement agreement which allowed Penn Power to recover Regional Transmission Expansion Plan (“RTEP”) charges through a non-bypassable rider to all customers.

The RTEP charges are substantially similar in nature to the Generation Deactivation charges that PPL EnergyPlus has proposed to have PECO collect in this proceeding. Namely, RTEP charges are administratively developed and PJM-assigned charges that are not associated with competitive transmission service. Allowing the inclusion of the Generation Deactivation charges in an NMB Rider in this proceeding is consistent with the Commission’s approval of the DSS Rider to recover RTEP charges in Penn Power’s DSP proceeding.

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

B. ALL TRANSITIONAL ISSUES HAVE BEEN ADEQUATELY ADDRESSED.

As noted above, in rejecting PPL EnergyPlus’ proposal to establish an NMB Rider for Generation Deactivation changes, the RD stated that the proposal did not adequately provide for transitional protections. PPL EnergyPlus respectfully disagrees with the RD.

PECO DSP II provides the perfect opportunity for the Commission to approve the NMB Rider as the establishment of the rider for purposes of collecting PJM Generation Deactivation charges will benefit the Pennsylvania electric market. PPL EnergyPlus St. No. 1-SR at 7. As stated above, there are currently no Generation Deactivation charges in the PECO zone, and most

customer contracts will expire before the date that the DSP II changes will go into effect.¹ Contrary to the recommendation of the RD, the parties supporting the establishment of the NMB Rider for Generation Deactivation charges have produced evidence to show that there are no meaningful transitional issues to prevent the Commission from adopting this proposal.

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

To the extent that a customer's existing contract with an EGS provides for a pass-through of transmission charges, beginning on June 1, 2013 the customer's EGS would simply cease charging the customer for PJM Generation Deactivation charges. As explained by PPL EnergyPlus, once PECO assumes responsibility for the recovery of all Generation Deactivation charges, the EGS would simply zero out this charge on the customer's bill once PECO assumes responsibility for recovery of these charges. PPL EnergyPlus Statement No. 1-SR, p. 6.

¹ OSBA's witness stated that he would recommend a delay "unless the current level of Generation Deactivation charges collected within PECO's transmission zone is de minimus." OSBA St. No. 2-R at 5. As of May 2012, PECO does not have any Generation Deactivation charges. PPL EnergyPlus St. No. 1 SR at 7. Therefore, the current level of Generation Deactivation charges is de minimus. As the current state of these charges in PECO's service territory falls squarely within the situation where the OSBA did not recommend a delay, the implementation of an approved NMB rider should occur on June 1, 2013 as proposed by PPL EnergyPlus.

For those customers that entered into fixed-term contracts that spanned the DSP I and DSP II phases, sophisticated customers like PAIEUG's members knew or should have known that certain terms of their service would be subject to review and revision in this proceeding. PPL EnergyPlus St. No. 1_SR at 4. Further, the effective date of the change would be June 1, 2013, which would provide impacted customers with sufficient time to renegotiate their contract with their EGS. PPL EnergyPlus St. No. 1-SR at 6. As noted above, as of May 2012 there were no PJM Generation Deactivation charges being collected in the PECO zone. Therefore, it is unlikely that EGSs included a risk premium into their recent offers to retail customers. Moreover, if an EGS does not renegotiate with an existing customer, it is likely that the EGS will eventually lose that customer, because that customer will be able to obtain a better offer somewhere else. Thus, there is very minimal risk that any Large commercial and industrial customer would not be provided the opportunity to renegotiate their contract, should the Generation Deactivation charge be implemented. For these reasons, the likelihood of double-collection is extremely low, given the type and limited number of customers involved.

As previously noted, the proposed inclusion of a Generation Deactivation charge cannot be described as a significant alteration to the competitive market. At most it shifts an administrative cost currently collected from all customers by individual LSEs to PECO. Again, concerns related to a one-time transition should not inhibit the Commission from approving a charge that will improve the competitive market in PECO's service territory for both customers and suppliers.

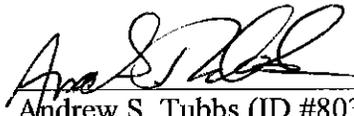
The evidence presented by PPL EnergyPlus in this proceeding has shown that creating a competitively neutral mechanism to collect the Generation Deactivation charge is beneficial to competition, because it creates pricing transparency and reduces EGS risk and customer

confusion. PPL EnergyPlus St. No. 1, p. 5. Implementation of this mechanism would eliminate the need for EGSs to include risk premiums in their fixed price offers. Approval of the NMB Rider would also remove these non-market based costs from wholesale default service bids, and provide for the recovery of these charges via a competitively neutral non-bypassable rider applied to all PECO customers.

IV. CONCLUSION

For the foregoing reasons, the Recommended Decision should be revised to adopt PPL EnergyPlus' proposal that PECO establish an NMB Rider to collect the PJM imposed Generation Deactivation Charges collected proceeding.

Respectfully submitted,



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