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File #: 159334

September 12, 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, is the Prehearing Memorandum of PPL Interstate Energy Company and PPL Electric Utilities Corporation, in the above-referenced proceeding. Copies will be provided as indicated on the Certificate of Service.

Respectfully submitted,

David B. MacGregor

DBM/jl  
Enclosures

Rosemary Chiavetta, Secretary  
September 12, 2014  
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cc: Certificate of Service  
Honorable Susan D. Colwell

**CERTIFICATE OF SERVICE**

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

**VIA E-MAIL & FIRST CLASS MAIL**

Darryl Lawrence, Esquire  
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Harrisburg, PA 17108  
*Counsel for Allegheny Electric Cooperative, Inc.*

Date: September 12, 2014

  
\_\_\_\_\_  
Christopher T. 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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**PREHEARING MEMORANDUM OF  
PPL INTERSTATE ENERGY COMPANY AND  
PPL ELECTRIC UTILITIES CORPORATION**

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**TO ADMINISTRATIVE LAW JUDGE SUSAN D. COLWELL:**

PPL Interstate Energy Company (“PPL IEC”) and PPL Electric Utilities Corporation (“PPL EU”) (hereinafter, collectively the “Applicants”), pursuant to 52 Pa. Code § 5.222(d), and in compliance with the Prehearing Order issued by Administrative Law Judge Susan D. Colwell (“ALJ”) on August 29, 2014, hereby file this Prehearing Memorandum in the above-captioned matter, and state as follows:

## I. INTRODUCTION

As discussed in more detail in the Joint Application of PPL IEC and PPL EU (the “Application”) and the Direct Testimony of Jeremy R. McGuire, PPL Corporation (“PPL Corp.”) is seeking 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 the RJS Entities (as defined in the Application) to form Talen Energy Corporation (“Talen Energy”). 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 holding company that will be wholly owned by the RJS Entities (“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.

PPL IEC provides transportation of oil and natural gas to electric generating stations pursuant to certificates of public convenience granted by the Pennsylvania Public Utility Commission (“Commission”). See *Application of Interstate Energy Company*, Docket No. 97032, 1973 Pa. PUC LEXUS 74, 46 Pa. PUC 524 (Feb. 6, 1973); *Re: Interstate Energy Company*, Docket No. 97032, 1979 Pa. PUC LEXUS 61, 53 Pa. PUC 314 (June 7, 1979); and *Application of Interstate Energy Company*, Docket No. A-00140200, affirmed by *UGI Utilities v. Pa. PUC*, 684 A.2d 225 (Oct. 28, 1996). PPL IEC owns and operates two pipelines that deliver fuel to two generating plants owned and operated by subsidiaries of PPL Energy Supply, LLC (“PPL Energy Supply”) in Lower Mount Bethel Township, Northampton County,

Pennsylvania. PPL IEC is a “public utility” and “natural gas distribution company” as defined in Sections 102 and 2202 of the Public Utility Code, 66 Pa.C.S. §§ 102, 2202.

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. 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.

## **II. PROCEDURAL HISTORY**

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), 2102(a), 2210(a), and 2811(e), authorizing: (1) the transfer of all of PPL Corp. ownership interests in PPL IEC to Talen Energy, and certain post-closing transactions associated therewith; (2) 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.

Together with the Joint Application, the Joint Applicants filed and served the following Appendices in support of the Joint Application:

- Appendix A Separation Agreement [**HIGHLY CONFIDENTIAL treatment is required for the Separation Agreement Schedules (ALL FILED UNDER SEAL)**]
- Appendix B Transaction Agreement [**HIGHLY CONFIDENTIAL treatment is required for Exhibits B and C, 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 subsidiaries prior to the closing of the Proposed Transaction (June 1, 2014)
- Appendix E Organizational chart showing Riverstone, the RJS Entities and relevant affiliates prior to the closing of the Proposed Transaction
- Appendix F Organizational chart showing PPL Corp. and its 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 that 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 closing of the Proposed Transaction
- Appendix N 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

- Appendix O List of interconnection agreements between PPL Energy Supply and its subsidiaries and PPL EU

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, Administrative Law Judge Susan D. Colwell (“ALJ”) issued a Prehearing Order describing the requirements for interested parties to participate in this proceeding and directing parties to file Prehearing Conference Memoranda.

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. As of the date of this Prehearing Memorandum, timely, notices of appearance, and/or petitions to intervene were served on the Applicants by the following parties: the Office of Consumer Advocate (“OCA”); the International Brotherhood of Electrical Workers, Local 1600 (“IBEW”); and Allegheny Electric Cooperative, Inc.

The only timely protest filed was by the Office of Small Business Advocate (“OSBA”). In its protest, the OSBA questions 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 and the Applicants’ request, in the alternative, for preapproval by the Commission 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 of internal restructurings that may occur from time to time within Riverstone's corporate structure. The Applicants believe and are prepared to demonstrate that the relevant considerations in the proposed transaction, which involves a new publicly-traded corporation with a board comprised of a majority of independent directors, are distinguishable from the circumstances intended to be covered by the Commission's Statement of Policy regarding "Utility Stock Transfer Under 66 Pa.C.S. § 1102(a)(3)." See 52 Pa. Code § 69.901(b).

### **III. APPLICANTS COUNSEL**

The attorneys for Applicants PPL EU and PPL IEC are:

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### **IV. SERVICE OF DOCUMENTS**

The Applicants request that all documents be served on:

Christopher T. Wright  
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17 North Second Street  
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Harrisburg, PA 17101-1601  
Phone: 717-612-6013  
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The Applicants agree to receive service of documents electronically in this proceeding. Further, to the extent that materials are available electronically, it is requested that copies be served upon Paul E. Russell at [perussell@pplweb.com](mailto:perussell@pplweb.com), David B. MacGregor at [dmacgregor@postschell.com](mailto:dmacgregor@postschell.com), and Michael W. Gang at [mgang@postschell.com](mailto:mgang@postschell.com). The Applicants' attorneys are authorized to accept service on behalf of the Applicants in this proceeding. PPL Electric requests that the Commission and all parties of record serve copies of all discovery requests and answers, correspondence, Commission Orders, and any other documents issued in this proceeding on its attorneys in Harrisburg, Pennsylvania.

## V. ISSUES

The Joint Application seeks certain limited approvals from the Commission associated with PPL Corporation's proposed separation of its deregulated electric generation and retail electric and gas supply business lines from its regulated electric utility business lines. This fundamental transaction does not require Commission approval. However, as explained in the Joint Application, certain ancillary transfers necessary and appropriate to this fundamental transaction and certain post-closing actions either require or may require Commission approval.

In this proceeding, the Applicants intend to demonstrate that the transactions contemplated the Joint Application will promote the public interest. The Applicants also intend to demonstrate that the Proposed Transaction satisfies the requirements of 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), as well as any other approvals and certificates appropriate, customary, or necessary under the Public Utility Code to carry out the transactions contemplated in this Application in a lawful manner.

In addition to the general approvals noted above, the Applicants specifically request that the Presiding Officer and the Commission make a finding that, given – among other things – the fact that Talen Energy will be a publicly-traded corporation with a board consisting of a majority of independent directors, the RJS Entities (or RJS SPE) will not have a controlling interest in Talen Energy and, therefore, PPL IEC. Alternatively, the Applicants, for the same reasons noted above, seek: (i) preapproval by the Commission for the RJS Entities (or RJS SPE) to sell-down their shares of Talen Energy common stock to below 20% of Talen Energy’s outstanding shares so long as such transactions 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; and, (2) preapproval for internal reorganizations that may occur from time to time in Riverstone’s corporate structure after the closing of the proposed transaction that would not result in a change in the ultimate control of the RJS Entities or RJS SPE by Riverstone. Such preapprovals would recognize the public and independent nature of Talen Energy and encourage capital investment in the Commonwealth and its public utilities.

As this proceeding develops, other parties submit testimony or exhibits, and more information becomes available through discovery, the Applicants may expand or modify their issues. The Applicants reserve the right to address additional issues that it identifies during the course of this proceeding.

**VI. WITNESSES**

On August 27, 2014, the Joint Applicants filed and served the following Direct Testimony addressing the topics indicated below:

<u>Witness</u>	<u>Statement Nos.</u>	<u>Topics</u>
Jeremy R. McGuire Vice President- Strategic Development, PPL Strategic Development, LLC Two North Ninth Street, Allentown, Pennsylvania 18101	Joint Applicants Statement No. 1	Describing Talen Energy and its equity owners; explaining the Proposed Transaction; explaining why Riverstone's indirect ownership interest in Talen Energy should not be treated as a controlling interest in PPL IEC; explaining the possible internal restructuring and/or sell-down transactions involving the interests in Talen Energy that could occur following the closing of the Proposed Transaction; explaining the limited findings and approvals sought by the Applicants; explaining why Talen Energy has the requisite technical, financial, and legal fitness to own and operate PPL IEC; and explaining how the Proposed Transaction will promote the public interest.
Dennis A. Urban, Jr. Vice President, Finance and Regulatory Affairs, PPL Electric Utilities Corporation Two North Ninth Street, Allentown, Pennsylvania 18101	Joint Applicants Statement No. 2	Describing the PPL Corp. and PPL Energy Supply, LLC entities relevant to the Proposed Transaction; describing the impact that the Proposed Transaction will have on the existing intercompany affiliate agreements; describing the impact that the Proposed Transaction will have on the interconnection agreements between PPL Energy Supply and its subsidiaries and PPL EU; and describing the benefits that may result from Proposed Transaction.
Drew D. Cummings General Manager, PPL Interstate Energy Company Two North Ninth Street, Allentown, Pennsylvania 18101	Joint Applicants Statement No. 3	Describing PPL IEC and its operations; explaining how the Proposed Transaction will affect PPL IEC, its current intercompany agreements, and its 28 employees; explaining why PPL IEC believes that Talen Energy will have the managerial and technical experience to operate PPL IEC's pipeline assets on the closing of the Proposed Transaction.
Marc A. Jackson Manger of Real of Estate Services, PPL Services Corporation Two North Ninth Street, Allentown, Pennsylvania 18101	Joint Applicants Statement No. 4	Describing certain property interests that will be transferred or clarified as part of the Proposed Transaction in order to reaffirm certain property rights among PPL EU and the subsidiaries of PPL Energy Supply, LLC

The Applicants reserve the right to call additional witnesses and to address additional topics as this proceeding develops, issues are identified, and hearing dates are scheduled.

**VII. DISCOVERY**

To date, the Applicants have not received any discovery requests. Given the limited issues for which the Applicants are seeking Commission approval, the Applicants do not believe that any change or modification in the standard timelines for discovery set forth in the Commission’s regulations is necessary or appropriate. However, the Applicants are amenable to modifications in the standard timelines for discovery if necessary and appropriate to ensure that the review of the Proposed Transaction can be concluded in a timely manner without unduly delaying the closing of the Proposed Transaction.

Certain Attachments to the Joint Application are highly confidential and were filed under seal. The Applicants believe that a protective order will be necessary with regard to these Attachments and discovery in this proceeding. The Applicants will coordinate with the other parties of record to agree upon and submit a motion for a protective order that appropriately limits the disclosure of trade secrets or other confidential information.

**VIII. LITIGATION SCHEDULE**

Recognizing the limited issues for which the Applicants are seeking Commission approval, the Applicants propose the following schedule to ensure that the review of the Proposed Transaction can be concluded in a timely manner without unduly delaying the closing of the Proposed Transaction:

Application Filed	July 30, 2014
Applicants’ Direct Testimony	August 27, 2014
Other Parties’ Direct Testimony	October 21, 2014
Settlement Conference	October 30, 2014
Rebuttal Testimony	November 4, 2014

Surrebuttal Testimony	November 12, 2014
Evidentiary Hearings	November 17-18, 2014
Main Briefs	December 9, 2014
Reply Briefs	December 23, 2014

All dates are for in-hand delivery. The Applicants propose that electronic mail for receipt and distribution of testimony and exhibits will satisfy in-hand service dates, with follow-up hard copies provided by first class mail.

**IX. SETTLEMENT**

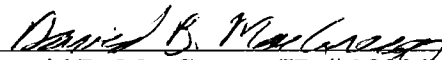
The Applicants remain open and available for settlement discussions with the other parties.

Respectfully submitted,

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Of Counsel:  
Post & Schell, P.C.

Date: September 12, 2014

  
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