

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Duke)	
Energy Ohio for Authority to Establish a)	
Standard Service Offer Pursuant to)	Case No. 14-841-EL-SSO
Section 4928.143, Revised Code, in the)	
Form of an Electric Security Plan,)	
Accounting Modifications and Tariffs for)	
Generation Service.)	

In the Matter of the Application of)	Case No. 14-842-EL-ATA
Duke Energy Ohio for Authority to)	
Amend its Certified Supplier Tariff,)	
P.U.C.O. No. 20.		

CONSTELLATION NEWENERGY, INC

AND

EXELON GENERATION COMPANY, LLC

REPLY BRIEF

December 29, 2014

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I. Introduction

On May 29, 2014, Duke Energy Ohio, Inc. (“Duke” or “Company”) filed an application to establish a new electric security plan (“ESP III”), which would commence June 1, 2015, and end May 31, 2017 or 2018, at the election of Duke.¹ Exelon Generation Company, LLC and Constellation NewEnergy, Inc. (jointly “Exelon”) are full parties of record and jointly present this Reply Brief. Exelon agrees with certain provisions in Duke’s proposed ESP III, namely, continuing the competitive bid process for standard service offer (“SSO”) procurement, continuing the direct billing of non-market-based charges, and most of the proposed Master Standard Service Offer Supply Agreement (“MSA”).

However, Exelon like nearly every other party in this proceeding, believes that Duke’s proposed ESP III does not conform with Ohio law and cannot be adopted as proposed. Exelon believes the following three amendments to the Application must be implemented in order meet the criteria of the Electric Security Plan statute², the State Energy Policy³, and to be in the public’s best interest. Those three amendments are:

- Reject Duke’s proposed Price Stabilization Rider (“Rider PSR”); and
- Reject the unilateral option of Duke to terminate the ESP III after two years; and
- Implement corrections to the Master Standard Service Supply Agreement (“MSA”) as presented by Exelon witness Campbell; and
- Clarify that if the 10% revenue trigger is reached in Rider SCR, the Commission has the authority to order remedies other than making Rider SCR automatically non-bypassable.

¹ Duke Ex. (Application) 1 at 1 and 16.

² Section 4928.143, Revised Code.

³ Section 4928.02, Revised Code.

At a minimum, these modifications are necessary for the positive, continued development of the competitive market in Duke's service territory.

II. Price Stabilization Rider

In accordance with the approved ESP II plan, Duke purchases its contractual share of the energy and capacity of the Ohio Valley Electric Corporation ("OVEC") and sells all of that capacity and energy into the PJM markets.⁴ Under proposed Rider PSR, if the OVEC costs for producing the power from the OVEC plants exceed the net revenue from the sale of power into the PJM markets, then all Duke ratepayers will be obligated to pay Duke the difference via the new Rider PSR.⁵ Duke has asked that Rider PSR be non-bypassable for the whole 25-year period, through the term of Duke's contractual obligation to purchase OVEC generation.⁶

A. Duke's statutory analysis is a circular, inadequate argument

Duke seeks authority to implement Rider PSR under Section 4928.143(B)(2)(d), Revised Code, on the claim that it "allows an ESP to include terms, conditions, and charges relating to bypassability, as would have the effect of stabilizing or providing certainty regarding retail electric service."⁷ In Duke's view, Rider PSR relates to bypassability because Duke proposes it as a non-bypassable rider. Duke also contends that Rider PSR will have the effect of stabilizing or providing certainty. Other than Duke, no party to this proceeding supports Rider PSR as filed.⁸

The crux of Duke's statutory argument is that, because Duke claims Rider PSR will stabilize or provide certainty, it will actually stabilize or provide certainty. Without citation to *any* evidence in the record, Duke solely proclaimed the following:

⁴ Tr. Vol. II at 430.

⁵ Duke Ex. 1 at 13; Duke Ex. 6 at 16; Tr. Vol. II at 462.

⁶ Duke Ex. 1 at 13.

⁷ Duke Initial Brief at 18.

⁸ One party, Ohio Energy Group, finds merit with Rider PSR, but would revamp it in such significant ways that it is practically a different proposed rider.

And, as structured, Duke Energy Ohio's proposed Rider PSR would have the effect of stabilizing or providing certainty regarding retail electric service. Consequently, Rider PSR is lawful under R.C. 4928.143 and, as discussed herein, is a reasonable element of the proposed ESP.⁹

Duke has the burden of proof and persuasion in this matter to justify its Rider PSR proposal. This Duke argument in its Initial Brief is a circular argument and an inadequate legal basis to justify approval of the Rider.

As explained by Exelon in its Initial Brief,¹⁰ the evidence of record also does not justify a conclusion that Rider PSR will have the effect of stabilizing or providing certainty regarding retail electric service. Extensive evidence of record establishes that Rider PSR will operate to insulate Duke from any commercial loss from its OVEC investment, while the risk of future profitability of the two Eisenhower era OVEC coal burning power plants¹¹ is transferred to retail electric service customers in Duke's service territory.¹² Further, Rider PSR *adds* instability to retail electric service rates as there is no fixed price per kilowatt-hour ("kWh") that Rider PSR assures and thus it provides the rate payer no certainty.¹³ Finally, Duke's own projection for Rider PSR¹⁴ forecasts the impact from the Rider will be to increase retail customer rates during the ESP III term as well as cause retail customers – including those with fixed rate generation contracts to experience repeated rate changes.¹⁵

In sum, Duke's direct case does meet its burden of proving that Rider PSR is authorized by the ESP statute or will be beneficial to the public. In addition, Duke has not addressed the

⁹ Duke Initial Brief at 18-19.

¹⁰ Exelon Initial Brief at 7-12.

¹¹ Both plants began operating in 1955. IEU Ex. 6 at 1.

¹² RESA Ex. 3 at 11; Staff Ex. 1 at 11; OCC Ex. 43 at 13-14; Kroger Ex. 1 at 6; Sierra Club Ex. 4 at 5; and IGS Ex. 12 at 6.

¹³ As proposed, Rider PSR will be adjusted quarterly, up or down, depending on the difference between (a) actual revenues received from the sale of the power into the PJM market and actual expenses charged by OVEC, and (b) projected revenues and expenses from the prior quarter. Duke Ex. 6 at 16.

¹⁴ The PSR projection covers only the years 2015 through 2024 and is presented on a full-calendar-year basis. Tr. Vol. IX at 2462. The PSR projection is not the entire period in which Duke seeks to have Rider PSR be in effect.

¹⁵ OMA Ex. 5, at 5 8 (which are OCC-INT-16-413 Attachment (b), pages 2-5).

overwhelming evidence presented by multiple parties that Rider PSR violates other components of Ohio law.¹⁶ The other Ohio law issues are as follows:

- Section 4928.02(H), Revised Code, prohibits the subsidization of generation assets by distribution charges, and vice versa.¹⁷ The projections for the ESP period though show that Rider PSR will collect monies from Duke's ratepayers (distribution customers) to pay for generation losses, and as a result, Duke's ratepayers will pay for generation via Duke's distribution charges.¹⁸ Even if Duke's OVEC power sales revenues do not exceed OVEC's costs, Rider PSR would still create a subsidy for Duke. Duke ratepayers are guaranteeing that the OVEC generation earns a profit by covering any difference in the revenues from the sale of the power and cost of generation because the costs charged by OVEC to Duke, which will be covered by ratepayers under Rider PSR, include a return on OVEC's investment.¹⁹
- Rider PSR violates Ohio's corporate separation laws²⁰ as the current approved separation plan does not authorize Duke to be selling a capacity option which is a competitive generation service. Generation services deemed competitive and thus not compulsory by Section 4928.03, Revised Code.

Duke in its initial brief failed to even attempt to explain how Rider PSR would not violate these Ohio laws. Moreover, Duke failed to address the evidence demonstrating that Rider PSR will violate federal law as well.²¹

B. Rider PSR will contradict, complicate and compromise the development of the competitive market

Duke argues that Rider PSR will not contradict, complicate and compromise the development of the competitive market.²² Moreover, Duke highlights the many years over

¹⁶ See, e.g., Kroger Ex. 1 (Higgins Direct) at 6; Sierra Club Ex. 4 (Jackson Direct) at 5; Staff Ex. 1 (Choueiki Direct) at 5-7; RESA (Campbell Direct) Ex. 3 at 10; and IGS Ex. 12 (Hamilton/Haugen Direct) at 6-7.

¹⁷ Shopping customers are Duke's distribution service only customers. Because Rider PSR will be non-bypassable, Duke will impose the OVEC generation costs through a rider to distribution customers.

¹⁸ OCC Exs. 4 and 4A. Duke has argued that Rider PSR will not be a generation rider, a distribution rider or a transmission rider; rather it will be an "other" rider. Tr. Vol. II at 416.

¹⁹ IEU Ex. 5 at 10; Tr. III at 652.

²⁰ Staff Ex. 1 (Choueiki Direct) at 5-7; and RESA Ex. 3 (Campbell Direct) at 10.

²¹ RESA Ex. 3 (Campbell Direct) at 16; and IGS Ex. 12 (Hamilton/Haugen Direct) at 8-9.

²² Duke Initial Brief at 19.

which the competitive markets have developed in Ohio.²³ Duke initial brief however ignores the fact that Rider PSR will mandate Duke's ratepayers (both shopping and SSO customers) to underwrite the cost recovery of OVEC generation costs even though shopping customers will be receiving their generation from competitive retail electric service providers, and SSO customers will be receiving their generation from the bid winning wholesale suppliers. The fact that Duke customers will be providing a revenue guarantee for the costs of the OVEC generation distorts both the retail and wholesale market for power. Permitting Duke to distort the actual price of generation is directly at odds with Ohio's competitive market construct and possibly impairs existing competitive retail electric service ("CRES") contracts.

The stated goal of Rider PRS is to provide stability for the capacity component of generation service. Yet, as noted above because the Rider alters the cost of generation for retail customers it actually exposes all customers to price variability, even those customers that chose to enter into a fixed-price contract. Further, for the ESP period itself the projections are will merely add to the cost by making ratepayers subsidize Duke for the losses associated with the OVEC plants. Duke did not even perform its own cost analysis of the OVEC plants, but referred to OVEC projections. OVEC's projections in turn show losses throughout the entire ESP III term.²⁴ After four years all projections of power prices are questionable at best, particularly for old, coal powered power plants as environmental regulations for carbon emissions are unknown, and retrofitting plants that were originally built in the 1950's with no arrangements for such pollution control could be costly – a cost that today would fall on the shoulders of the Duke shareholders, but under Rider PSR falls on the rate payer. To make matters worse, Duke is

²³ Duke Initial Brief at 19-20.

²⁴ OCC Exs. 4 and 4A.

asking that the transfer of the risk be until 2040 – 25 years from now when the OVEC coal plants will be 85 years old.

The current competitive market in Ohio offers retail customers less expensive, more effective ways to stabilize the price they pay for generation and protect themselves from changing market prices.²⁵ The most common and effective tool to hedge against variable-price risk is the fixed-price contract offered by CRES providers. Section 4928.03, Revised Code empowers customers to shop for generation related services, Rider PSR impairs that right and demands under the authority of the Commission that all customers expose themselves to the price variability of the Rider PSR.

C. Changes in the wholesale market do not justify imposing Duke's generation costs on ratepayers for 15 years

Duke notes that the wholesale market is changing and argues that the changes will result in price spikes.²⁶ Also, Duke notes that PJM has reacted and is proposing some modifications, but Duke claims that those modifications will likely impact wholesale capacity prices.²⁷ First, it must be pointed out that Duke does not cite any evidence in the record that supports such a claim. Second, it remains to be seen whether these modifications will impact wholesale capacity prices. Third, Duke appears to assume that the impact will only be an increase and, therefore, justifies Rider PSR for 25 years. The Commission simply has insufficient evidence to accept these arguments from Duke. Moreover, as Exelon has pointed out, there are current, effective mechanisms for Duke's ratepayers to mitigate any future concerns. The Commission does not need to and should not adopt Rider PSR based on Duke's unsubstantiated arguments about the future of the wholesale market.

²⁵ See, e.g., RESA Ex. 3 at 13.

²⁶ Duke Initial Brief at 21.

²⁷ *Id.*

D. Duke fails to mention its request for authority to add other contractual arrangements

Duke is reserving the “right” to include additional arrangements into Rider PSR in the future.²⁸ In its Initial Brief, Duke failed to address this aspect of its request for Rider PSR. For all of the reasons that Rider PSR should not be approved, the Commission should likewise not authorize Duke to add other unknown contractual arrangements into Rider PSR.

E. Ohio Energy Group’s Support of Rider PSR is unconvincing

Ohio Energy Group (“OEG”) is supporting Rider PSR, but only if it is substantially reworked – reworked in a manner that especially benefits OEG’s members.²⁹ OEG’s support is based on a concern that, without Rider PSR, the Commission “cedes all of its authority to regulate generation pricing to PJM.”³⁰ This OEG argument is fundamentally flawed. Authority by the Ohio Commission to regulate generation comes from the General Assembly in the form of statutes³¹. The Commission cannot expand or diminish its authority to act by approving utility tariffs or taking any other self empowering act. As a non constitutional, governmental agency the Commission only has such powers as explicitly conferred upon it by the General Assembly.³² In other words, if OEG projection of rising capacity prices comes true, the Commission has the same authority to address capacity prices then as now, approving Rider PSR in the Duke tariff neither enhances nor diminishes the Commission’s statutory authority.

²⁸ Duke Ex. 1 (Application) at 13.

²⁹ OEG Initial Brief at 14-15.

³⁰ OEG Initial Brief at 9 and 10.

³¹ See Chapter 4928, Revised Code.

³² Penn Central Trans. Co. v. Public Util. Comm. (1973), 35 Ohio St. 2d 97, 64 Ohio Op. 2d 60, 298 N.E. 2d 587.

OEG's next claim that Duke customers will be 100% exposed to the PJM market just like investors who are invested 100% in a single stock.³³ This is incorrect. Retail customers today can fix capacity prices in an array of arrangements with CRES.

One key amendment that OEG asks the Commission to make to Duke's Rider RPS is to levelize the Rider PSR payments for the OVEC generation. OEG witness Taylor proposes that the projected profits being made for the out years be brought forward and paid today.³⁴ The problem with such levelization is that while the short term losses may well prove to be accurate or even worse underestimated, the long term profits may never arrive. This is particularly true if the Environmental Protection Agency rules on carbon control require investments in the OVEC plants. What happens under levelization then is that future customers will have to make up the losses for the credits paid to today's customers. Simply put, this is a subsidy by future distribution service customers for today's customers' capacity costs. It is questionable whether the prohibition of Section 4928.02, Revised Code which prohibits subsidies between wire services and generation services permits such a scheme. It is beyond question that such a plan of borrowing today for capacity credits that may not arrive in the future and will have to be paid off for by future customers is poor public policy.

Finally, OEG requests that Rider PSR be bypassable for all customers with 10 MW of demand. Exelon does not disagree with making Rider PSR bypassable, but fairness as well as Section 4928.03, Revised Code which permits all customers to shop for generation and generation related services demands that Rider PSR be bypassable by everyone. If the OVEC hedge is as good as Duke presents it, then having it be by passable should not be a problem to Duke as customers will flock voluntarily to the service. No retail customer active in this

³³ OEG Initial Brief at 1.

³⁴ OEG Ex. 1 at 18-23.

proceeding has stepped up and said they are willing to take Rider PSR as proposed. In fact, most vehemently oppose Rider PSR. One is left then with the realization that Duke favors making Rider PSR compulsory because no one will take voluntarily as it benefits only Duke.

F. RESA's proposal to implement an "Enroll with Your Wallet" pilot program is reasonable and should be accepted.

The requirement for retail customers to have their account numbers with them to sign up for CRES service is a barrier to shopping in Ohio. RESA's proposal to implement an "Enroll with Your Wallet" pilot program would allow Duke's customers to enroll in CRES service using other identifying information commonly used to sign up for cable service or telephone service, information that is typically known to customers or readily available in the average person's wallet. Exelon agrees with RESA's contention that such a program will benefit customers and retail competition, the nature of the pilot program will allow the Commission to review the program to see if it enhances the shopping experience, or contributes to slamming.

III. Duke Proposes a Three-Year Electric Security Plan with a Unilateral Right to Terminate the ESP III Early Should be Rejected

Duke's application expressly states that it is proposing a three-year ESP and also states that Duke is reserving the "right" to unilaterally terminate the ESP III early at the end of the second year.³⁵ Multiple Duke witnesses testified that the ESP III is proposed for a period of three years – from June 1, 2015, to May 31, 2018, and never corrected that testimony.³⁶ This evidence makes clear that Duke's proposes a three-year ESP III.

In its Initial Brief, Duke attempts to re-characterize its ESP proposal, stating that it is seeking only "a two-year ESP, with a one-year extension that would be automatically effective

³⁵ Duke Ex. 1 (Application) at 1 and 16.

³⁶ Duke Ex. 2 (Henning Direct) at 5; Tr. Vol. I at 54-55; Duke Ex. 3(Lee Direct) at 5; Tr. Vol. II at 305; Duke Ex. 5 at 4 (Mullins Direct) at 4; Tr. Vol. II at 349; Duke Ex. 6 (Wathen Direct) at 3; Tr. Vol. II at 388-389.

unless Duke Energy Ohio exercises its option for the extension not to occur.”³⁷ Although Duke may point to the fourth footnote in its application for this theory,³⁸ Duke’s own witnesses dispel this re-characterization. Duke’s ESP proposal is for a three-year term. Accordingly, the Commission should find that Duke proposed a three-year ESP III, and that Duke proposed to have a unilateral “right” to terminate that three-year ESP early – at the end of May 2017.

Turning to the merits of this “right” to terminate, Exelon and multiple other parties contend that it lacks statutory authority.³⁹ Section 4928.143, Revised Code, allows the utility to decide (when the Commission modifies and approves a proposed ESP) whether to accept the ESP or withdraw it, thereby terminating it. Nothing in that statutory authority allows for a termination two years into a three-year term when the utility no longer likes the rates that were set. Moreover, nothing in Section 4928.143, Revised Code, would allow the ESP to automatically extend, if that was Duke’s actual proposal (which it is not). Duke’s attempts to bypass the clear language of Section 4928.143, Revised Code, are futile. As Direct Energy Services LLC, Direct Energy Business LLC, and OCC noted, if Duke had wanted a shorter term for its ESP III, it should have actually filed for a shorter term.⁴⁰

Nothing presented by Duke on brief or during the hearing provided clarification, examples or objective criteria to be used as the basis for an early termination.⁴¹ Giving Duke discretion to decide on a moment’s notice to end the ESP III a year earlier than scheduled creates

³⁷ Duke Initial Brief at 35.

³⁸ The fourth footnote of the application states: “The proposed term is for two years, which will automatically be extended for another year unless Duke Energy Ohio exercises its right to terminate the plan early as discussed in Section III.F., *infra*.”

³⁹ Kroger Initial Brief at 7-8; OMA Initial Brief at 5-9; RESA Initial Brief at 26-27; and OCC Initial Brief at 107-108.

⁴⁰ Direct Energy Initial Brief at 16; and OCC Initial Brief at 107.

⁴¹ Exelon/RESA witness Campbell pointed out that there is no objective criterion by which Duke might avail itself of the provision, or by which the Commission would evaluate whether Duke’s election of the early termination provision is proper. RESA Ex. 3 at 19.

tremendous uncertainty within the market, and adds risk and cost.⁴² Kroger, Direct Energy, OMA and RESA all concurred with these points.⁴³ Duke has not presented sufficient evidence or justification for this “right” to terminate the ESP III early, at the end of May 2017.

IV. The Master Standard Service Supply Agreement Changes Should be Modified in Several Limited, but Important, Ways

Exelon took issue with a small number of provisions in Duke’s proposed Master Supply Agreement.

- Sixth Recital paragraph’s reference to PJM Responsibilities does not need to refer to the base residual auction and incremental auctions administered by PJM
- Definitions of “ESP,” “PIPP Customers,” and “SSO Customers” should be fixed/clarified to reflect Duke ESP III.
- Unilateral early termination of ESP III
- Add Generation Deactivation and Emergency Load Response into the list of Non-market-based transmission charges for which Duke will be responsible
- Declaration of Authority should not be able to be revised unilaterally by Duke
- Billing adjustments/resettlements should not be unilaterally decided by Duke
- Seasonal Billing Factors should be filled in advance of the deadlines for bids

Save for the early termination provision (which was already discussed above), it is unclear that Duke disagrees with any of these points because Duke did not respond in its Initial Brief to them. Exelon’s recommendations are fair, appropriate and necessary. The Commission should adopt these changes to the MSA for the ESP III.

⁴² RESA Ex. 3 at 19-20.

⁴³ Kroger Initial Brief at 7-8; Direct Energy Initial Brief at 16; OMA Initial Brief at 5-9; RESA Initial Brief at 26-27; and OCC Initial Brief at 108-109.

V. Several Staff Changes/Clarifications to the Competitive Bidding Process Should be Adopted

Exelon agreed with several Staff-recommended changes/clarifications to the competitive bidding process (“CBP”) during Duke’s proposed ESP III, as follows:

- Clarify that the auction manager selects the winning bidder, subject to the approval or rejection of the auction results by the Commission.
- Establish a process under which the feature of the CBP can be modified, if necessary, during the ESP III.
- Require Duke or the Auction Manager to advertise the auctions in a well-circulated publication.⁴⁴

Duke did not respond to these recommendations in its brief.⁴⁵ As such, it appears that Duke is in agreement with these points. Accordingly, the Commission should accept those three Staff suggestions.

VI. Rider SCR should be amended so that if the 10% trigger is reached the Commission can adopt remedies other than making the rider fully non bypassable.

Duke in its Initial Brief did not accept the suggestion by the Retail Energy Supply Association to clarify that if the ten percent trigger in Rider SCR is reached the Commission can order relief other than making the Rider non bypassable. Rider SCR is a rider which collects from Standard Service Customers several types of expenses required to provide full unbundled retail electric service. Rider SCR provides that if the revenue balance in Rider SCR reaches ten percent of the Standard Service Revenue, then Rider SCR can become non-bypassable to assure that Duke receives full compensation. Exelon believes that Duke should be fully compensated for its authorized SSO expenses, but is concerned that given the description of Rider SCR by Duke that, if and when, the 10% trigger is reached there may be more equitable ways of assuring

⁴⁴ Exelon Initial Brief at 18-19.

⁴⁵ Duke did acknowledge during discovery it does not intend that the Commission determine the winning bidders. Rather, Duke intends that the Commission approve or reject the results of the auction subsequent to receipt and review of the auction manager's report. Duke Ex. 38.

Duke payment than shifting the whole Rider SCR to non bypassable status. Thus, Exelon joins with RESA asking that Rider SCR be clarified so that if the 10% trigger is hit, Duke may suggest any remedy it wishes and that the Commission is not foreclosed from ordering relief which differs from making Rider SCR fully non bypassable if such is in the public interest.

VII. Conclusion

For the foregoing reasons, the Commission should modify Duke's proposed ESP III in the following respects:

- Reject the proposed Rider PSR.
- Reject Duke's proposed unilateral "right" to terminate the ESP III early, at the end of the second year.
- Accept and incorporate Exelon's proposed changes to the proposed MSA.
- Accept the following Staff-suggested modifications to the CBP:
 - Clarify that the auction manager selects the winning bidder, subject to the approval or rejection of the auction results by the Commission.
 - Establish a process under which the features of the CBP can be modified, if necessary, during the ESP III.
 - Require Duke or the Auction Manager to advertise the auctions in a well-circulated publication.
- Accept the Retail Energy Supply Association clarification that if the 10% trigger is reached in Rider SCR, the Commission can order relief other than automatically making Rider SCR non-bypassable.

Respectfully submitted,



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CERTIFICATE OF SERVICE

The Public Utilities Commission of Ohio's e-filing system will electronically serve notice of the filing of this document on the parties referenced on the service list of the docket card who have electronically subscribed to the case. In addition, the undersigned certifies that a courtesy copy of the foregoing document is also being served (via electronic mail) on the 29th day of December 2014 upon all persons/entities listed below:



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