

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Implementation of)
Section 4928.54 and 4928.544 of the) Case No. 16-247-EL-UNC
Revised Code)

**INITIAL COMMENTS OF
EXELON GENERATION, LLC**

I. INTRODUCTION

Pursuant to the Public Utilities Commission of Ohio’s (“Commission”) Entry of February 1, 2016, Exelon Generation, LLC (“Exelon”) respectfully submits the following Initial Comments to the Commission Staff’s Report, filed February 1, 2016. The Commission Staff Report presents two options for establishing a new procurement process to supply Ohio’s utilities’ with power for their Percentage of Income Payment Plan (“PIPP”) loads.

II. EXELON

Exelon is one of the largest competitive power generators in the United States, dispatching some 35,000 megawatts (“MWs”) of generation from a diverse portfolio of generation plants and utilizing nuclear, hydroelectric, solar, landfill, gas, and wind technologies. Exelon Generation, LLC is a major participant in the wholesale standard service auctions conducted by the Commission and has won supply tranches in auctions held by Ohio electric distribution utilities including AEP Ohio, The Dayton Power and Light Company, and FirstEnergy Ohio. As an active bidder in the standard service auctions, Exelon desires to share its perspective on the Commission Staff’s report. Exelon appreciates the opportunity to provide these Initial Comments.

III. BACKGROUND

The director of the Ohio Development Services Agency (“ODSA”) is authorized to administer the low-income customer assistance programs,¹ and the Commission is instructed to cooperate with and provide assistance to the director in connection with the administration of these programs. The General Assembly, through amended Section 4928.54, Revised Code,² instructs the ODSA Director to aggregate percentage of income payment plan program customers for the purposes of establishing a competitive procurement process for the supply of competitive retail electric service for such customers.³

The competitive procurement process in Section 4928.54, Revised Code, is to be in the form of an auction, and only those bidders certified under Section 4928.08, Revised Code, are entitled to participate.⁴ The winning bid or bids selected through this competitive procurement process must satisfy the following requirements:

- “Be designed to provide reliable competitive retail electric service to percentage of income payment plan program customers”;
- “Reduce the cost of the percentage of income payment plan program relative to the otherwise applicable standard service offer established under sections 4928.141, 4928.142, and 4928.143 of the Revised Code”; and
- “Result in the best value for persons paying the universal service rider under section 4928.52 of the Revised Code.”⁵

Section 4928.544, Revised Code, provides that upon the ODSA Director’s request, the Commission shall design, manage, and supervise the competitive procurement process required by Section 4928.54, Revised Code. On January 5, 2016, ODSA Director Goodman submitted a

¹ “Low-customer assistance programs” mean “the percentage of income payment plan program, the home energy assistance program, the home weatherization assistance program, and the targeted energy efficiency and weatherization program.” Section 4928.01(A)(16), Revised Code.

² 2015 Ohio H.B. 64.

³ Section 4928.54, Revised Code (eff. 9.29.2015).

⁴ *Id.*

⁵ Section 4928.542, Revised Code.

letter to the Chairman of the Commission, requesting that the Commission design, manage, and supervise this process. In response, Commission Staff, in a Staff Report filed on February 1, 2016, propose two options for conducting future procurement to supply PIPP loads for Ohio utilities.

A. Option One

Option One separates the procurement process for standard service offer (“SSO”) and PIPP loads.⁶ Each utility would conduct a separate procurement auction for the PIPP load, with bidding happening on the same days as the standard SSO auctions.⁷ The schedule of bidding and bid plans would track the utilities’ currently approved SSO procurement plans.⁸ Under Option One, the procurement process would consist of two phases—the ordinary SSO auction and a separate auction for the PIPP load. During the PIPP load auction, bidders would submit offers for each tranche of PIPP load, with each tranche priced below the average winning SSO price, and the least-expensive offers would be taken to fill the PIPP need.⁹ If the procurement process did not attract enough supply to meet its target, the unfilled need could be satisfied through a next-day auction, a subsequent reserve auction, or through the market.¹⁰

B. Option Two

Option Two proposes that the current procurement methods would be kept for the SSO load (*i.e.*, suppliers would compete for an obligation to supply the SSO load via a descending clock auction) but suppliers fulfilling a PIPP load would receive an administratively-set discounted rate for any PIPP load supplied.¹¹

⁶ Staff Report, 3.

⁷ *Id.*

⁸ *Id.*

⁹ *Id.*

¹⁰ *Id.*, 6.

¹¹ *Id.*

IV. EXELON'S VIEW

As described further below, Exelon supports Option Two, with clarification that wholesale suppliers participating in the auction will be notified of the administratively-set discounted rate for PIPP load well in advance of the auction so the rate can be properly priced in to supplier bidding strategies. Exelon believes Option Two will invite sufficient participation in the auction process, to ensure the lowest price is obtained to meet the requirements of Section 4928.54, *et. seq.*, Revised Code.

A. *Option One jeopardizes the goals of Section 4928.54, et seq., Revised Code*

Exelon has serious concerns with Option One. Separating the procurement process into two phases—one auction for the larger SSO load and a separate auction for the smaller PIPP load—creates a significant risk that the stand-alone PIPP bid, to the extent there is any participation in the PIPP auction, would produce procurement prices that are equal to or higher than the prevailing SSO bid. Such an outcome is in direct contravention of the requirements of Section 4928.54, Revised Code.

It is worth noting that the current SSO load auctions system has worked remarkably well, with auctions going many rounds, attracting a diversity of bidders, and achieving attractive clearing prices. Many of the SSO load auctions have attracted ten or more bidders, with some resulting in 2:1 or greater bidder/winner ratios. See Appendix A, which summarizes the results of twenty-three SSO auctions that have taken place since 2012. As suggested by the robust historic levels of participation in prior SSO load auctions, suppliers place great confidence in the current SSO load auction system, and the continued participation of a broad range of suppliers provides the best benefit to SSO load.

Due to the strong track record of Ohio's SSO load auctions, the Commission should exercise prudence before revising the mechanics of these auctions. Exelon is concerned that the record of success Ohio has seen with SSO load auctions would not necessarily translate into success with PIPP load auctions. For a supplier, bidding on a PIPP load entails a different set of considerations than bidding on an SSO load. First, to date, the PIPP loads have been significantly smaller than the SSO loads. On a tranche basis, this will continue to be the case if, as suggested in the Staff Report, the PIPP load is divided into 100 tranches or roughly a one percent share of the PIPP load per tranche. Given the cost to evaluate the load, post a bidding bond, devote the significant manpower resources necessary to analyze that load and determine the cost to supply that load, the small volume bids may be relatively expensive to prepare in contrast with large auctioned loads. Further, the load factors of the PIPP demand, which is primarily for space heating and cooling, may be more expensive to serve on a stand-alone basis than the standard service offer demand, which has some less weather-sensitive commercial and industrial use.

In other words, there is significant risk of guaranteeing a discount to the SSO load if the PIPP load was offered separately. To qualify for PIPP, a customer must be certified to be below a threshold based on the federal poverty level. In times of recession or major industrial layoffs, the number could increase rapidly, and decrease with either economic growth or population reduction. Therefore, PIPP migration, particularly in the beginning, may be harder to forecast than the SSO load.

Finally, getting started in 2016 with a separate PIPP bid that has to be below the current SSO load may be hampered by the laddering and staggering already built into SSO bids. If there is a price spike at the time of the PIPP auction that is above the two and three year contracts now layered into some of the SSO contract portfolios, even if suppliers do offer a lower price for the

PIPP load than the SSO load for the current auction, the PIPP price could still be above the SSO price as a result of these laddered and staggered contracts.

For those reasons, Exelon believes that there is a good chance that suppliers, having already bid their lowest price for the SSO in the first phase of the Option One auction, may not offer an even lower bid for the second phase PIPP auction. Similarly, the bidders who were closed out of the SSO auction by their high bids are not likely to turn around in the second phase and make a bid that is not only lower than what they offered in the first phase, but is lower than the SSO closing price. If Option One is to achieve its statutory goal however, that is exactly what is going to have to happen. The Staff Report indicates that the credit requirements may be lower for the PIPP bid and that may attract new bidders. Reducing the credit costs would have a beneficial effect on the SSO and PIPP auctions, but lower credit requirements just for the PIPP load—given the size and risk differences in the PIPP only auction—is not likely to assure a successful PIPP only bid.

If it turns out that the second phase of the auction does not produce a lower price than the SSO first phase, the options for the Commission are not attractive. Option One provides that if the second phase PIPP bid does not result in a lower price, then the PIPP load is rebid later. That is far from an assurance of success. This is especially true during times of rising market prices for power. In rising power markets, subsequent auctions are likely to produce even a higher differential between the SSO rate and the PIPP rate.

Finally, another possible effect of separating the PIPP load from the SSO for bidding purposes is that in terms of volume both auctions are sub optimal in size. If that is the case then separating the auctions would result in higher prices for both SSO and PIPP customers.

B. Option Two is the optimal alternative

Exelon favors Option Two, which leaves intact a single-phase auction for both the SSO and PIPP loads. Under Option Two, so long as there continue to be liquid auctions for the SSO load, the PIPP load will always be supplied, and at a price pegged below the SSO price. Option Two gives the Commission the best chance of meeting the objectives of Section 4928.54, *et seq.*, Revised Code while preserving the robust participation levels seen with prior SSO auctions. Option Two has the added benefit of avoiding the risks described above that are associated with complying with separate bidding requirements for the SSO and PIPP loads.

The Staff Report does not spell out the mechanism for establishing the administratively-set discount rate. In fact, the Staff Report only devoted two sentences to Option Two. With that in mind, it is of utmost importance that the PIPP discount amount is provided to suppliers in advance of the auction, such as in the bid packages.¹² This will allow suppliers sufficient time to figure in the cost of the PIPP discount when making their descending clock offers. Exelon also would recommend that the Commission require that the auction manager ensures that PIPP data, such as historic PIPP usage, is provided to the supply bidders to assist in pre-auction preparation.

V. CONCLUSION

Exelon appreciates this opportunity to express its views on the SSO and PIPP auction proposals. Exelon believes that the Commission should select Option Two, and implement it in a fashion that basically retains the current program, with the only difference being that the standard discount amount, provided to suppliers in advance of the auction, be applied to the

¹² So long as wholesale suppliers know what the discount amount is prior to the auction, they will likely be indifferent to how the discount is determined and who determines it. That said there are a number of possible alternatives available to set the amount. The Commission could either set the PIPP discount itself, or provide a range of discounts (e.g. a discount rate of 1%-5%) and let the auction manager determine an appropriate discount rate within the range set by the Commission, which would achieve the statutory balance between the low PIPP rate and the low PIPP rider assessed against the other customers.

actual PIPP load associated with each SSO tranche. The discount would be set in advance by the Commission or the Commission in concert with the auction manager. Option Two, with the clarification above, would assure the continued robustness of supply auctions, a guaranteed lower PIPP price for power, and less administration cost, without risk of a unilateral increase in the PIPP rate.

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 Initial Comments of Exelon Generation, LLC is also being served (via electronic mail) on all parties who have or will be submitting initial comments in Case No. 16-247-EL-UNC on the 8th of February, 2016, or shortly thereafter when the identity of such commenter is known.

/s/ Ilya Batikov
Ilya Batikov

APPENDIX A

UTILITY & CASE NO.	DATE OF AUCTION	NO. OF BIDDERS AND WINNERS	NAMES OF WINNERS	CLEARING PRICE(S)
AEP Ohio 14-300-EL- UNC	February 26, 2014, (energy-only auction for delivery period of 4/1/14- 5/31/15)	11 bidders 5 winners	AEP Energy Partners, Buckeye Power, Duke Energy Commercial Asset Management, Exelon Generation Company, and FirstEnergy Solutions	\$42.78/MWh
	May 6, 2014 (energy-only auction for delivery period of 11/1/14-5/31/15)	11 bidders 6 winners	AEP Energy, BP Energy, Conoco Phillips, Exelon Generation, NextEra and DP&L	\$50.00/MWh
	September 9, 2014 (25% slice of the system for delivery Nov 1, 2014 to May 31, 2015)	9 bidders 5 winners	AEP Energy Partners, BP Energy Company, Buckeye Power, DTE Energy Trading, and Exelon Generation Company	\$48.05/MWh
	November 18, 2014 (delivery period=Jan 1, 2015 to May 31, 2015)	7 bidders 5 winners	AEP Energy, ConocoPhillips Company, DTE Energy Trading, Exelon Generation Company, and Noble Americas Gas & Power Corp.	\$51.37/MWh
AEP Ohio 15-792-EL- UNC	April 28, 2015 (for 50% of the energy and capacity)	13 bidders 9 winners	AEP Energy Partners, AEP Service Corp (as agent for 3 utilities), BP Energy, Conoco Phillips, DTE Energy Trading, Exelon Generation, FES, DP&L, and TransCanada Power Marketing	(a) June 1, 2015 to May 31, 2016: \$53.79; (b) June 1, 2015 to May 31, 2017: \$53.51; and (c) June 1, 2015 to May 31, 2018: \$55.58
	May 12, 2015 (for the other 50% of the energy and capacity)	13 bidders 9 winners	AEP Energy Partners, AEP Service Corp (as agent for 3 utilities), BP Energy, Buckeye Power, DTE Energy Trading, Exelon Generation, FES, Noble Americas Gas & Power, and TransCanada Power Marketing	(a) June 1, 2015 to May 31, 2016: \$55.42; (b) June 1, 2015 to May 31, 2017: \$54.70; and (c) June 1, 2015 to May 31, 2018: \$56.35
	November 3, 2015 (two- year product June 2016- May 2018)	14 bidders 6 winners	AEP Energy Partners, BTG Pactual Commodities, DTE Energy Trading, Exelon Generation Company, FirstEnergy Solutions Corp., and Noble Americas Gas & Power Corp.	48.29/MWh

The Dayton Power and Light Company 13-2120-EL-UNC	October 28, 2013(10% of the SSO supply in a 41-month product – Jan 2014-May 2017)	10 bidders 3 winners	DPL Energy, Exelon Generation Company, and FirstEnergy Solutions	\$49.32/MWh
	September 23, 2014 (delivery period of Jan 1, 2015 through May 31, 2017)	5 bidders 2 winners	AEP Energy Partners and Exelon Generation Company	\$62.08/MWh
	September 28, 2015 (Jan 1, 2016 – May 31, 2017)	13 bidders 6 winners	AEP Energy Partners, American Electric Power Service Corporation, BTG Pactual Commodities, Exelon Generation Company, FirstEnergy Solutions Corp., and NextEra Energy Power Marketing	\$51.49/MWh
Duke Energy Ohio, Inc. 11-6000-EL-UNC	December 14, 2011	13 bidders 7 winners	AEP Energy Partners, AEP Service Corp, Constellation Energy Commodities Group, DTE Energy Commercial Asset Management, FES and DP&L	(a) Jan 1 2012 – May 31 2013=\$49.72/MWh; (b) Jan 1, 2012 – May 31, 2014 = \$51.10/MWh; and (c) Jan 1, 2012-May 31, 2015=\$57.08
	May 22, 2012 (delivery period June 1, 2013-May 31, 2015)	11 bidders 3 winners	DTE Energy Trading, Exelon Generation Company and FirstEnergy Solutions	\$52.14/MWh
	November 15, 2012 (delivery period June 1, 2013-May 31, 2015)	12 bidders 4 winners	Buckeye Power, DTE Energy Trading, Exelon Generation Company, & FirstEnergy Solutions	\$50.56/MWh
	May 21, 2013	10 bidders 4 winners	AEP Energy Partners, ENCOA, Exelon Generation, and FirstEnergy Solutions	\$54.16/MWh
	November 12, 2013 (delivery period June 1, 2014 – May 31, 2015)	11 bidders 5 winners	AEP Energy Partners, Buckeye Power, DTE Energy Trading, Duke Energy Commercial Asset Management and FirstEnergy Solutions	\$50.11/MWh
	May 14, 2015	12 bidders 8 winners	AEP Energy Partners, AEP Service Corp, BTG Pactual Commodities, Conoco Phillips, DTE Energy Trading, Exelon Generation, FES, and Noble Americas Gas & Power	(a) June 2015-May 2016 = \$58.79; (b) June 2015-May 2017 = \$57.60; and (c) June 2018-May 2018 = \$59.17
	November 16, 2015 (for delivery June 1, 2016-May 31, 2018)	12 bidders 3 winners	Energy America, Exelon Generation Company and FirstEnergy Solutions	\$49.86/MWh
FirstEnergy Ohio 12-2742-EL-UNC	October 23, 2012 (delivery June 1, 2013 – May 31, 2016)	10 bidders 5 winners	AEP Energy Partners, DTE Energy Trading, Duke Energy Commercial Asset Management, Exelon Generation, and FirstEnergy Solutions	\$60.89/MWh

	January 22, 2013 (delivery June 1, 2013-May 31, 2016)	11 bidders 4 winners	AEP Energy Partners, DTE Energy Trading, Exelon Generation, and FirstEnergy Solutions	\$59.17/MWh
	October 22, 2013	10 bidders 5 winners	AEP Energy Partners, DTE Energy Trading, Duke Energy Commercial Asset Management, Exelon Generation, and FirstEnergy Solutions	(a) June 1, 2014-May 31, 2015 = \$50.91/MWh; and (b) June 1 2014 – May 31, 2016 = \$59.99/MWh
	January 28, 2014	9 bidders 5 winners	ConocoPhillips Company, Duke Energy Commercial Asset Management, Inc., Exelon Generation Company, LLC, FirstEnergy Solutions Corp, and the Dayton Power and Light Company	(a) June 1, 2014-May 31, 2015 = \$55.83/MWh; and (b) June 1 2014 – May 31, 2016 = \$68.31/MWh
	October 14, 2014 (delivery June 1, 2015 – May 31, 2016)	5 bidders 4 winners	AEP Energy Partners, ConocoPhillips, Exelon Generation, and FirstEnergy Sol.	\$73.82
	January 27, 2015 (delivery June 1, 2015- May 31, 2016)	8 bidders 6 winners	AEP Energy Partners, ConocoPhillips, DTE Energy Trading, Exelon Generation, FirstEnergy Solutions and NextEra Energy Power Marketing	\$69.18/MWh

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Summary: Comments Initial Comments electronically filed by Mr. Ilya Batikov on behalf of Exelon Generation, LLC