BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

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

COMMENTS BY
EXELON GENERATION, LLC
SECOND STAFF PIPP PROPOSAL

I. OVERVIEW

Pursuant to the Hearing Examiner's February 23, 2016 Entry, the following are comments from Exelon Generation, LLC ("Exelon") addressing the Second Staff Percentage of Income Payment Plan (PIPP) Proposal which was also filed on February 23rd. For the reasons detailed below, Exelon believes that the Second Staff PIPP Proposal should be modified, at least for the next two years, to streamline the two-step Descending Clock Auction followed by Request for Proposal to a one-step combined Standard Service Offer ("SSO") and PIPP auction. The Commission and the Department of Development can then revisit auction after it has some experience with a combined auction under the new statutes.

While the Second Staff PIPP Proposal is a thoughtful piece in which the Staff considered the concerns raised by Exelon and other commentators, in its current form the Second Staff PIPP Proposal falls short as to two of the three statutory requirements of Sections 4928.54; 4928.541 and 4928.542 Revised Code (collectively, the "PIPP Aggregation Statutes"). The PIPP Aggregation Statutes require the Department of Development to aggregate the PIPP load in a fashion that: 1) procures all the power needed for the PIPP load by means of a competitive auction; 2) establishes a PIPP rate that is below the SSO rate; and 3) limit the auction of the PIPP load to just those suppliers holding competitive retail electric service provider ("CRES") certificates.

The Second Staff PIPP Proposal to hold a two-step auction with an SSO auction conducted first, followed by a PIPP Request for Proposal ("RFP") would fulfill the statutory auction requirement; however, there is a substantial likelihood that over time, there would be certain auctions in which the follow-up RFP would not produce a lower price than the SSO auction. The Second Staff PIPP proposal provides that if the phase-one SSO bid rate is lower than the PIPP bid price than the SSO suppliers would absorb the PIPP load. The Second Staff PIPP proposal builds the possible PIPP load assignment as a condition of certain future SSO auctions. On its face, such a contingency could violate the PIPP Aggregation statutes for two reasons. First, the reassigning the PIPP load to the prior SSO supplier at the SSO bid price would simply establish a PIPP rate that matched the SSO price. Section 4928.541, Revised Code though is explicit in that the PIPP rate must be lower than the SSO rate. Merely matching the price is insufficient to meet the statutory requirement. Further, the overall SSO rate is laddered and staggered over several years so the overall SSO price may be below the SSO price for the period in which the PIPP load is being auctioned. This is not just a theoretical possibility; during times of rising power prices, the SSO price with the blended lower cost prior auctioned power will be lower than the current SSO auction or PIPP RFP.

An additional problem created by establishing a contingency for sending the PIPP supply obligation back to the SSO phase-one bid winners is that the SSO phase-one bidders would have to have made arrangements for a CRES certificate prior to the SSO auction, as it is possible that the SSO auction is also an auction for PIPP load. A CRES certificate is not currently required for SSO auctions, but it would be required for bidders in the SSO under the Second Staff PIPP

Plan as those SSO suppliers may well end up as PIPP auction selected suppliers should the phase-two RFP process not produce a lower price.

To bring the Second Staff PIPP Proposal into full compliance with the PIPP Aggregation Statutes, Exelon suggests that the two phase SSO/ PIPP auction be combined into a single phase descending clock auction. Prior to the auction, the Commission would set the percentage discount the PIPP auction price would be relative to the SSO auction price. In the application for the combined SSO/PIPP auction, all bidders would either have to provide their CRES certificate number or indicate the CRES provider with whom they will be partnering for purposes of supplying the PIPP load. With those two amendments, the Second Staff PIPP Proposal would satisfy the PIPP Aggregation Statutes by always producing a PIPP rate below the SSO rate, regardless of the laddering and staggering that produces the SSO rate, and the PIPP suppliers would have a CRES certificate at the time of the auction.

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.

III. ISSUES WITH THE STAFF'S SECOND PIPP PROPOSAL

A. Separate SSO and PIPP auctions are impractical

In its Initial PIPP Proposal, the Staff suggested separating the procurement process into two phases–one auction for the larger SSO load and a separate auction for the smaller PIPP load. Exelon and other commentators pointed out that there is a significant risk that the stand-alone PIPP bid would fail to produce a lower price than the SSO auction that preceded it. First, the PIPP load would be comprised of only of residential customers and possibly a poorer load factor. Further, the PIPP load has historically been significantly smaller than the SSO load—an issue exacerbated by the original suggestion that the PIPP load be divided up into 1% tranches for bidding purposes. Finally, the qualification to remain in PIPP is based on income and how long the PIPP customer remains in their current housing. Those are not migration factors about which suppliers have good information—at least not for the first several years—which makes it more difficult to fine-tune the PIPP bid. Preparing a bid for PIPP on its own, which is below the SSO bid, would require fine-tuning in order to attempt to reduce the cost of providing the power to the PIPP customers to a price which is below the SSO rate offered to residential, commercial and industrial customers in the same utility service zone. In sum, the PIPP load has more unknowns, and a higher degree of risk than the SSO load, making the PIPP load inherently costly to serve. Requiring the PIPP load to be served via a separate auction enhances these costs.

The Staff addressed several of Exelon's concerns in the Second Staff PIPP Proposal. Now the PIPP load will go to one supplier, which makes the PIPP load more sizeable for the winning bidder but it does not address the size disparity with the SSO load, which causes the probable price differential. The Staff also addressed Exelon's concern about the lack of contingency if the bid failed by providing that if the bid fails or if the PIPP bids are above the SSO bid price, the PIPP load will simply go to the SSO suppliers.

Unfortunately, the Staff's solution creates two problems of its own. First, as noted above, if the subsequent RFP does not produce a rate which is lower price per kWh than the SSO rate, then the PIPP load defaults to the SSO suppliers. On its face this solution is at odds with Section 4928.542(B), Revised Code which states that the winning auction bid must:

> Reduce the cost of the percentage of income payment plan program relative to the <u>otherwise applicable standard service offer</u> established under sections 4928.141, 4928.142, and 4928.143 of the Revised Code; (emphasis added)

By defaulting the PIPP supply to the phase-one SSO bid, there is a substantial chance that SSO price could be the same as the PIPP price. That would not meet the statutory requirement that the PIPP rate be below the SSO rate. Further, the statute compares the PIPP rate with the "applicable" SSO rate so that the blending effect of the laddering and staggering must be taken into account. In times of rising power prices, it will simply not be possible to achieve a lower PIPP rate compared with the blended SSO rate. The solution is simple: use a single auction and mandate that all suppliers allocate a discounted price to the PIPP load. The single auction option is not an original idea from Exelon; it was the alternative suggestion from the Staff in the First Staff PIPP Proposal.

B. Harm to the SSO auction

The second flaw with the Staff Second PIPP proposal is the potential harm to the SSO auction. If the bidding terms for an SSO auction provide that if the PIPP auction does not close, or if the PIPP supplier defaults, the PIPP load goes back to SSO supplier, then all SSO supply bidders must incorporate the risk of serving the PIPP load in their SSO bids. That could well raise the price over what the bids would otherwise produce. Further, if the PIPP supply load did come back, then the SSO suppliers would have to obtain a CRES certificate or arrange for a CRES partner to meet the requirement of Section 4928.54, Revised Code, which restricts PIPP auction participation to CRES certificate holders. By streamlining the SSO auction and PIPP RFP into one single auction, the uncertainty over whether the SSO bid includes or does not include the PIPP load is known. Removing the uncertainty over the PIPP load should result in making the SSO auction more attractive to potential bidders.

C. CRES certificated PIPP suppliers

In the Initial Staff PIPP Proposal, the requirement of Section 4928.54, Revised Code that the supplier for the aggregated PIPP load hold a CRES certificate was not addressed. Neither were the details about how the PIPP supply contract would be structured. The Staff's Second PIPP Proposal definitively states that the contract for PIPP supply will be similar to the Master Supply Agreement ("MSA") currently being used for the SSO auction, adjusted for credit arrangement to match the size of the PIPP load. The Staff's suggestion to use the MSA may prevent the potential loss of suppliers who currently supply SSO bids by assuring them of similarity to the current system. By implementing the Option Two feature of a single rather than dual bid, the Commission would go one step further by not only making the PIPP supply contract "similar" to the MSA used for the SSO auction, but instead making it the very same contract.

As for the statutory requirement of a CRES certificate, that is easily handled. First, many of current SSO suppliers either have CRES certificates or have affiliates or business partners who have CRES certificates. The Commission need only indicate that before bidding

IV. 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 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,

/s/ Ilya Batikov

M. Howard Petricoff (0008287), Counsel of Record
Michael J. Settineri (0073369)
Ilya Batikov (0087968)
Vorys, Sater, Seymour and Pease LLP
52 E. Gay Street
Columbus, Ohio 43215
614-464-5414
mhpetricoff@vorys.com
ibatikov@vorys.com
mjsettineri@vorys.com

Attorneys for Exelon Generation, LLC

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/s/ Ilya Batikov
Ilya Batikov

burkj@firstenergycorp.com
sam@mwncmh.com
fdarr@mwncmh.com
mpritchard@mwncmh.com
william.wright@puc.state.oh.us
bryce.mckenney@puc.state.oh.us
stnourse@aep.com
elizabeth.watts@duke-energy.com
amy.spiller@duke-energy.com
joliker@igsenergy.com
mswhite@igsenergy.com
thomas.mcnamee@puc.state.oh.us
michael.schuler@aes.com
drinebolt@ohiopartners.org
terry.etter@occ.ohio.gov
ajay.kumar@occ.ohio.gov
christopher.healey@occ.ohio.gov
dstinson@bricker.com
scasto@firstenergycorp.com