

**BEFORE THE  
PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Procurement of )  
Standard Service Offer Generation as Part )  
of the Fourth Electric Security Plan for ) Case No. 16-776-EL-UNC  
Customers of Ohio Edison Company, The )  
Cleveland Electric Illuminating Company, )  
and The Toledo Edison Company. )

In the Matter of the Procurement of )  
Standard Service Offer Generation for ) Case No. 17-957-EL-UNC  
Customers or the Dayton Power and Light )  
Company. )

In the Matter of the Procurement of )  
Standard Service Offer Generation for ) Case No. 17-2391-EL-UNC  
Customers of Ohio Power Company. )

In the Matter of the Procurement of )  
Standard Service Offer Generation for ) Case No. 18-6000-EL-UNC  
Customers of Duke Energy Ohio, Inc. )

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**REPLY COMMENTS OF DUKE ENERGY OHIO, INC.**

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**I. Introduction**

In response to continuing delays and uncertainty regarding the capacity construct of PJM Interconnection (PJM), the Public Utilities Commission of Ohio (Commission) issued an entry on February 13, 2020, directing Commission Staff (Staff) to propose a modified product containing capacity flow-through provisions for electric utility default service auctions. Staff filed its proposal on March 13, 2020, suggesting that the standard service offer (SSO) auction products be modified such that capacity is priced at \$0/MW-day and the winning suppliers are

made whole for the actual capacity costs via a pass-through charge to the utility. That charge would then be recovered from SSO customers as part of the auction cost recovery mechanism. On April 16, 2020, interested stakeholders, including Duke Energy Ohio, Inc., (Duke Energy Ohio or the Company) filed comments regarding Staff's proposal. Duke Energy Ohio's comments indicated its support of the Staff's proposal, with some requested clarification.<sup>1</sup>

By Entry dated May 15, 2020, the Commission requested that interested stakeholders file reply comments discussing the comments filed in response to Staff's proposal and recommendation and, specifically, the proposal made by Energy Harbor that utilities conduct an energy-only auction as suggested by Staff, but substituting a capacity-only hedge product for the pass-through capacity charge.<sup>2</sup> The Commission identified eight areas where additional comments were desired:

- Could an auction for two products – Energy-Only and Full Requirements - be held simultaneously or in parallel with the option for the Commission to reject one of the resulting prices?
- How long would it take to implement parallel auctions? Would it affect the current fall auction schedule?
- Are there any issues with the design, structure, or competitive outcomes of such an auction?
- If the hedged capacity product is locked in for multiple delivery years, possibly 4 or 5 years in the future, what is the expected effect on the price bids?
- Given generation capacity conditions in the PJM footprint, what is the expected impact on bid prices for a locked-in product relative to capacity prices established through the BRA process as modified by the expanded MOPR?

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<sup>1</sup> See Duke Energy Ohio's Comments, p. 2 (April 16, 2020).

<sup>2</sup> Entry, p. 8 (May 15, 2020).

- Would it make sense to stagger and ladder these products as is done in Ohio's SSO auction today and how much load should be locked in at a time?
- Would supplier credit worthiness become more of an issue with a longer-term capacity product and if so, what incremental credit requirements should be considered?
- What have other states in the PJM footprint done to establish or modify a competitive bidding process for retail default generation supply in view of the current limitations and uncertainties regarding the BRA process?<sup>3</sup>

Duke Energy Ohio continues its support for Staff's original proposal and believes that it will result in a fair and reasonable rate for the Company's SSO customers and will provide some insulation for SSO suppliers that would otherwise include some risk-based pricing in the yet-to-be-determined capacity price through the PJM Reliability Pricing Model (RPM) Base Residual Auction (BRA) and incremental auctions for future delivery years. Duke Energy Ohio appreciates the opportunity to comment on the questions raised by the Commission regarding Energy Harbor's proposal.

## **II. Discussion of issues identified by the Commission.**

### **A. Could an auction for two products – Energy-Only and Full Requirements - be held simultaneously or in parallel with the option for the Commission to reject one of the resulting prices?**

As an initial matter, further definition is necessary to understand fully what is meant by an energy-only and a full requirements auction occurring simultaneously. As the Company interprets these products, Duke Energy Ohio's comments are assuming the following:

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<sup>3</sup> Id.

- Energy-Only – Refers to the product that Staff recommended in its March 13, 2020, filing in these proceedings. This is where capacity is priced in the auction at \$0 and the actual costs of capacity are passed through to the customers that the SSO supplier is serving.
- Full Requirements – Refers the “status quo” product that Duke Energy Ohio has been using for multiple years, where the BRA is completed for the relevant delivery years and all SSO suppliers will be supplying energy, ancillary services, as well as, capacity that was procured via PJM’s BRA and/or incremental auctions at a mostly known price.

As Duke Energy Ohio understands Staff’s proposal, it does not believe that there exists either a need or benefit from holding two separate auctions simultaneously. When the BRA is known, the Full Requirements should be used. The energy-only auction should be used when auctions are required but the BRA has not been run and the capacity price is therefore unknown. Two auction disparate products at the same time may be confusing to suppliers and could potentially hamper market liquidity. A Full Requirements auction, with an unknown BRA price, even if hedged with a capacity price proxy, still results in capacity price uncertainty for suppliers and will likely discourage bidder participation. Additional risks include (1) major shifts in switching if the ultimate price for SSO is higher or lower than what CRES providers can offer; and (2) major shifts in SSO load could change the load shape of SSO to an extent not contemplated when SSO auction participants developed their offers. Moreover, it is possible, if not probable, that a risk premium would be embedded in SSO auction bids that could result in higher prices for customers. Conversely, if SSO bidders know that whatever the eventual BRA price actually is, there will be a pass-through for such capacity, then risk is limited to energy, participation will be encouraged, and retail pricing risk due to wholesale capacity market uncertainty will be mitigated.

**B. How long would it take to implement parallel auctions? Would it affect the current fall auction schedule?**

Duke Energy Ohio does not have sufficient information to respond to this question as it is in the area of expertise of the actual auction managers and depends ultimately on when the Commission issues a final decision on the matter. Duke Energy Ohio would work with its auction managers to implement any necessary changes as expeditiously as possible. While mechanically conducting such a process may be feasible within the timeframe for the fall, there are numerous significant open issues and questions that are unknown. It would require time to determine the necessary answers before a detailed auction could be designed and implemented. In addition, to reduce confusion across all SSO auctions, the Commission would likely want a similar process and product for all utilities, which will require broader stakeholder engagement and will add significant lead time to launch and could impact the timing of auctions in the fall of 2020. If such changes necessitate a delay in the fall auction schedule, that delay could potentially be impactful enough that PJM will have actually run the BRA auction by that time, making the changes unnecessary. The Company would work to minimize any such delay. The Company notes that if the Commission were to simply adopt Staff's recommendation, there would be no delays or issues with implementation.

**C. Are there any issues with the design, structure, or competitive outcomes of such an auction?**

The Company is unclear whether what Energy Harbor is referring to as energy-only aligns with what Staff has recommended. If Energy Harbor's proposal is that the energy-only product is considered a full requirements product with no initial capacity price, and that there would then need to be an additional capacity product auctioned off, the proposal appears to be overly complicated. Duke Energy Ohio must understand the logistics around this product to more

fully comment. Energy Harbor refers to a financial settlement but such a proposal seems difficult to implement as the underlying obligation of the SSO provider can change day to day as customers switch in and out of the SSO. To add and implement a separate settlement, outside of the PJM position, would be operationally cumbersome and difficult to track.

It appears that Energy Harbor's proposal includes a multi-year capacity commitment from bidders at a fixed price. "Suppliers would offer capacity at a fixed price for all years of the contract term,"<sup>4</sup> a contract term that includes the "2022/2023 DY and the following four delivery years (*i.e.*, through the 2026/2027 DY)."<sup>5</sup> This proposal creates a potential sequencing problem and disadvantages suppliers without access to a portfolio of physical capacity resources. First, it must be recognized that any such multi-year commitment can be longer in duration than the current ESP term of the respective utility, and no further. Otherwise, additional risk is created. Bidders without physical capacity resources would need to secure capacity in advance of bidding, with no guarantee they would win at auction. Again, in Duke Energy Ohio's opinion, this could discourage auction participation. As Duke Energy Ohio understands the Commission's role in this proposal, the Commission would be put in the position of making portfolio decisions regarding which speculative capacity bids to accept on behalf of customers and which to reject in lieu of the established auction process. The Commission should carefully consider the risks versus rewards to customers inherent in making future market predictions.

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<sup>4</sup> Comments of Energy Harbor LLC, p. 3 (April 16, 2020).

<sup>5</sup> Id., pp. 2-3.

**D. If the hedged capacity product is locked in for multiple delivery years, possibly 4 or 5 years in the future, what is the expected effect on the price bids?**

Duke Energy Ohio respectfully submits that the proposal to auction off capacity that has not yet cleared the BRA will dramatically decrease the number of bidders participating in the auctions. The auctions will be limited to only those who have generation or are willing to price in the additional risk of an unknown future BRA price. While it is true that SSO customers currently bear the capacity risk in the SSO auctions, such customers always have the option to switch to a competitive supplier. Duke Energy Ohio believes it is better to have the large clearinghouse of the PJM BRA auction that clears the BRA price as opposed to a smaller group of SSO auction participants that potentially can exert market power.

**E. Given generation capacity conditions in the PJM footprint, what is the expected impact on bid prices for a locked-in product relative to capacity prices established through the BRA process as modified by the expanded MOPR?**

Although the price effect of the MOPR is unclear, what seems to be known is that the Federal Energy Regulatory Commission (FERC) has created a possible situation for putting MOPRs on units whose owners participate in SSO auctions. It seems that PJM has recommended a solution that would relieve participants in Ohio SSO auctions of the MOPR penalty. However, the SSO auction participants, at least with respect to Duke Energy Ohio's SSO auctions, are participating in a financial transaction that is not specific to a particular generator. Therefore, there is no generator subsidy *per se*. SSO participants do not even have to own actual generation assets to participate in these auctions as currently structured but, instead, can use wholesale and financial products to satisfy the SSO obligation. However, if the auction structure is changed and

may require a possible unit-specific capacity offer, the potential participants may be subject to MOPR, further risking liquidity into the auction.

**F. Would it make sense to stagger and ladder these products as is done in Ohio's SSO auction today and how much load should be locked in at a time?**

Duke Energy Ohio does not have sufficient information to fully respond to this question as it lies in the area of expertise of the actual auction managers and depends ultimately on when the Commission issues a final decision on the matter. The Company does note that staggering and laddering of auctions is a viable strategy to mitigate price volatility between auctions and delivery years. Duke Energy Ohio would work with its auction managers to implement any changes necessary as expeditiously as possible. If such changes necessitate a delay in the fall auction schedule, the Company would work to minimize any such delay. The Company notes that, if the Commission were to simply adopt Staff's recommendation, there would be no delays or issues with implementation.

**G. Would supplier credit worthiness become more of an issue with a longer-term capacity product and if so, what incremental credit requirements should be considered?**

Duke Energy Ohio does not have sufficient information to fully respond to this question as the final product, term, and structure are not known. However, it is reasonable to assume that adding exposure to customers by extending the product would require additional credit and security requirements. These additional requirements could discourage participation and could also drive bid prices higher, depending on the creditworthiness of the bidder. Moreover, such questions of creditworthiness lie in the area of expertise of the actual auction managers and, ultimately, depend on when the Commission issues a final decision on the matter. Nonetheless, Duke Energy Ohio does anticipate that tighter credit requirements would be necessary if the



Commission were to implement two separate auctions: one with a full requirements product with a hedged capacity product and one with an energy-only product with a pass-through capacity tied to the BRA.

**H. What have other states in the PJM footprint done to establish or modify a competitive bidding process for retail default generation supply in view of the current limitations and uncertainties regarding the BRA process?**

Duke Energy Ohio is not aware of Energy Harbor's proposal for an energy-only product and a capacity hedge being used in any jurisdiction to date. As a result, implementation of such a process would likely create risk to customers, suppliers, and Ohio utilities. Duke Energy Ohio notes that the New Jersey Basic Generation Service has done this capacity pass-through arrangement using a proxy process. Duke Energy Ohio believes that the Commission's proposal of using a \$0 as a proxy is the preferred pricing method for the auction. With a price of \$0, it will be very transparent that the capacity costs will be trued up later. The proxy price could present a payment or credit situation which may be more confusing to the supplier and customer.

**III. Conclusion**

Duke Energy Ohio appreciates the opportunity to provide comments to the Commission on the appropriate structure of the SSO auctions until the PJM BRA structure and future delivery prices are known. The Company continues to believe that Staff's proposal for an energy-only auction, with a capacity pass-through, is the most reasonable approach during this interim period.

Respectfully submitted,

DUKE ENERGY OHIO, INC.

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**CERTIFICATE OF SERVICE**

I certify that the Comments of Duke Energy Ohio, Inc. was served by First-Class U.S. Mail or electronic delivery upon counsel identified below for all parties of record this 29<sup>th</sup> day of May, 2020.

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