

**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 Customers of the Ohio Edison)	Case No. 16-776-EL-UNC
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 of 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.)	

**CONSTELLATION ENERGY GENERATION, LLC’S
INITIAL COMMENTS**

I. INTRODUCTION

Constellation Energy Generation, LLC (“Constellation”) appreciates that the Public Utilities Commission of Ohio is examining the likely effectiveness of changes to the standard service offer (“SSO”) auction process “to help significantly reduce prices resulting from [the] SSO auctions.” Constellation, however, recommends against adoption of both proposed modifications listed in the Attorney Examiner’s January 3, 2023 Entry in the above-captioned cases.¹ Including six-month

¹ In the January 3, 2023 Entry, the Attorney Examiner directed at ¶ 5 that “[s]takeholders who file comments should file a copy of the comments in each of the above-captioned case dockets.” Constellation is making one filing in all four case dockets to comply with the Attorney Examiner’s directive.

products in the mix of products for each auction and/or revising credit requirements for companies seeking to bid at the auctions would not deliver the intended result of significantly reduced SSO prices.

Constellation is a leading power supplier – providing electric power and energy to over 2 million residential, public sector and business customers, including three-fourths of the Fortune 100. In addition, Constellation has vast experience in bidding in default service auctions in competitive markets across the country. In Ohio, Constellation has participated in the auction process since its inception initially through its predecessor entities² and now as Constellation, and has routinely been a winning bidder.³ Constellation, therefore, has unparalleled expertise that should be given significant weight as the Commission considers modifications to the Ohio electric SSO auction process. Based on its market experience in Ohio and in other states, Constellation explains below why the two concepts put out for comment would not effectively lower SSO prices significantly and why two different modifications – use of customer class-based products and load bands for the SSO price – would better assist the Commission in reaching its stated goal.

II. ARGUMENT

A. Inclusion of six-month products will not significantly decrease SSO prices.

Adding six-month products to the Ohio SSO auction process is not likely to result in significantly reduced SSO prices for two reasons. First, a six-month product will not neutralize or reduce other factors that more heavily influence Ohio SSO auction bids. As the Commission is aware, many factors have recently affected the price of wholesale electricity, including various geopolitical

² Constellation Energy Generation, LLC was formerly known as Exelon Generation Company, LLC. Prior to its corporate parent's merger with Exelon Corporation, Constellation Energy Commodities Group, Inc. was the entity that participated in the Ohio wholesale auctions.

³ See, e.g., *In re the Procurement of Standard Service Offer Generation of the Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company*, Case No. 16-776-EL-UNC, Notification of CBP Auction Results (Oct. 26, 2022); *In re the Procurement of Standard Service Offer Generation for Customers of Ohio Power Company*, Case No. 17-2391-EL-UNC, Notification of CBP Auction Results (Nov. 23, 2022); *In re the Procurement of Standard Service Offer Generation for Customers of Duke Energy Ohio, Inc.*, Case No. 18-600-EL-UNC, Notification of CBP Auction Results (Oct. 12, 2022).

and macroeconomic factors, inflation, and the price of natural gas.⁴ None of those factors would be outweighed by adding a six-month product. Further, the recently experienced delays with PJM Interconnection's Base Residual Auctions ("BRAs") due to orders from the Federal Energy Regulatory Commission had additional unintended consequences, including delaying auctions and preventing bidders from incorporating the costs of capacity obligations into their bids.⁵ Those events affected wholesale electricity prices, and adding a six-month product would also not neutralize or reduce those major influences on Ohio SSO auction prices. Notably, the recent utilization of a 12-month (non-blended) product has not stabilized prices. Because the external forces influencing prices at the time of an auction are more determinative of the final SSO auction price, it is unlikely that adding six-month products will significantly lower SSO prices or even stabilize prices.

Second, a six-month product would not significantly reduce SSO auction prices given the fact it requires the winning bidders to procure supplies in an off-cycle period because it does not conform to PJM's planning year. That off-cycle procurement causes additional risk and hedging costs that will factor into the bids. The PJM planning year construct for the BRAs and financial transmission right auctions (which allows market participants to offset or hedge potential losses related to the price risk of delivering energy to the grid) follows a 12-month basis, and therefore, 12-month, 24-month and 36-month products are consistent with this planning year construct. Further, having SSO auctions mirror the planning year construct is beneficial to customers since there is more liquidity in the markets for planning year products that match the PJM capacity procurement schedule. On the other hand, products that do not follow the planning year construct (such as the proposed six-month

⁴ See <https://www.eia.gov/outlooks/steo/report/winterfuels.php>.

⁵ As the Commission has acknowledged, capacity is a major factor in the price of electricity. See Commission's New Bureau webpage at <https://puco.ohio.gov/news/news-bureau-rising-energy-prices> and the May 4, 2022 Staff presentation to the Commission at <https://www.youtube.com/watch?v=xOhdpNfpKR0&t=1075s>.

products) add additional basis risk and hedging costs that would not lower the bids or Ohio auction prices, but in fact would increase risk, and consequently, costs.

Further, to the extent six-month products are introduced and this may increase the number of SSO auctions to be held in Ohio (if auctions would have to be held more frequently), the added administrative costs would be expected to be passed on customers, too. Specifically, the costs of holding additional auctions will raise SSO prices overall, which would be passed on to ratepayers. On that point, Constellation requests that the Commission provide further clarity on whether there is a desire to increase the number of auctions held as a result of the introduction of a six-month product.

B. Revision of credit requirements will also not significantly decrease SSO prices.

Revising the credit requirements for bidders in the Ohio SSO auction process is not likely to result in reduced SSO prices. The results of past auctions demonstrate that many bidders participate in each Ohio EDU's SSO auctions. Indeed, existing credit requirements have not been a limiting factor when it comes to Ohio SSO auction participation. These auctions have had the same pre-bid and post-bid collateral requirements for many years, including the 2022 auctions. As demonstrated in the table below, for each Ohio EDU's last four auctions, there have been at least six registered bidders and up to 15 registered bidders.

Case Number	Ohio EDU	Auction Date	Number of Registered Bidders
16-0776-EL-UNC	FirstEnergy Companies	January 10, 2023	6
		October 4, 2022	7
		March 7, 2022	11
		October 4, 2021	11
17-0957-EL-UNC	AES Ohio	November 29, 2022	9
		April 18, 2022	9
		March 22, 2022	9
		March 22, 2021	12
17-2391-EL-UNC	Ohio Power Company	November 1, 2022	7
		March 8, 2022	11
		November 2, 2021	14
		March 9, 2021	15

Case Number	Ohio EDU	Auction Date	Number of Registered Bidders
18-6000-EL-UNC	Duke Energy Ohio, Inc.	September 20, 2022	6
		February 22, 2022	12
		September 21, 2021	12
		February 23, 2021	14

Importantly, based on Constellation’s experience in several markets, there is no demonstrable connection between the lowering of credit requirements for bidders and a significantly lowered SSO auction price. In fact, lowering the credit requirements may lead to the unintended result of the inclusion of bidders who are unable to withstand the risk of providing full requirements SSO.

C. Other modifications for the SSO auction process are more effective and should be considered.

Constellation has two suggestions that would be effective modifications for future SSO auctions in Ohio. First, Constellation proposes that the Commission adopt a form of the Pennsylvania SSO auction model which uses a customer class grouping structure where generation service for residential, commercial, and industrial customers are procured via separate products.⁶ The industrial customer class load is procured in only 12-month terms through an indexed price structure. The residential and commercial classes’ load is procured in terms of different lengths, including 12-month and 24-month products. This structure preserves the longer-term price smoothing aspect for the residential and commercial customers that the Commission’s current blending structure is intended to produce, but the Commission has been unable to effectively implement in the last few years due to the PJM BRA delays. From a “cost causation” standpoint, this class-based structure also much better aligns risks associated with serving each customer class to that customer class. To account for the default service load being different across the customer classes and to ensure a successful procurement

⁶ See e.g. *Petition of PECO Energy Company for Approval of Its Default Service Program for the Period from June 1, 2021 through May 31, 2025*, 2020 PA. PUC LEXIS 620 (December 3, 2020); *Petition of PPL Electric Utilities Corporation for Approval of Its Default Service Program for the Period from June 1, 2021 through May 31, 2025*, 2020 PA. PUC LEXIS 646 (December 17, 2020); and *Petition of Duquesne Light Company for Approval of Its Default Service Program for the Period from June 1, 2021 through May 31, 2025*, 2020 PA. PUC LEXIS 4 (January 14, 2021).

across all classes, the number of tranches procured for each class and the size of each tranche can be different for the different customer classes. The number of tranches and the tranche size can be established by considering the default service load in each class. The auction manager can communicate the number of tranches and size of the tranche for each class prior to the auction, as is done currently.

Additionally, Constellation proposes that the Commission implement certain contractual protections (similar to Maryland) that mitigate the risks associated with significant movements of customers between the SSO and other supply options. These contractual protections ensure that SSO suppliers can reasonably forecast their customer levels to +/- 10% of volumes at the start of the term and limit exposure in the event of larger migrations of customers from competitive supply back to default service. Customer migration to the SSO within the 10% band would be served at the SSO price, while significant customer migration back to SSO that rises above the 10% band would be served at spot/day-ahead/real-time market prices. All SSO customers would then be served at the resulting blend of those prices. Mitigating the SSO reversion risk in this manner would decrease the risk premiums that are a part of prospective supplier bids, and as a result yield lower SSO prices, benefitting customers.

Constellation urges the Commission to consider employing these alternative strategies for auction reform, as they directly address the external factors affecting SSO pricing and will realize the Commission's goal of significantly decreasing SSO prices.

III. CONCLUSION

Constellation appreciates the opportunity to provide the above comments to the Commission. Based on its experience in this state and competitive electricity markets across the country, Constellation does not believe that the changes proposed in the January 3, 2023 Entry will lower SSO auction prices or otherwise benefit customers, and in fact may create new challenges or costs.

Accordingly, Constellation urges the Commission to decline to pursue the auction changes on which it sought comments. Instead, Constellation recommends that the Commission address certain external factors driving the SSO prices higher and mitigate those risks by modeling reforms after other state default auctions, as suggested above by Constellation. Specifically, Constellation recommends that auction products be based on customer class, and that a load threshold be established for the SSO auction price, with customer load migration above the established threshold to be served at index and blended with the SSO auction price to determine the revised SSO default price. Taking these actions would improve the SSO auction process.

Respectfully Submitted,

/s/ Gretchen L. Petrucci

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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 in the service list of the docket card who have electronically subscribed to this case. In addition, the undersigned certifies that a courtesy copy of the foregoing document is also being served upon the persons below via electronic mail on January 24, 2023.

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Summary: Comments - Initial Comments electronically filed by Mrs. Gretchen L.
Petrucci on behalf of Constellation Energy Generation, LLC