PPL Replies to Pennsylvania PUC: Report Reaches Fundamentally Wrong Conclusions

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PPL EnergyPlus, the energy marketing affiliate of PPL Corporation (NYSE: PPL), in a statement submitted to the Pennsylvania Public Utility Commission Thursday (6/20), said last week's PUC report on the company's capacity market activities is a "flawed document" that reaches "fundamentally wrong conclusions."

(Photo: http://www.newscom.com/cgi-bin/prnh/19981015/PHTH025)

"The PUC report is a flawed document, both in its analysis of the market conditions in the PJM daily capacity market and its legal and policy analysis as applied to the trading activities of PPL EnergyPlus. The PUC failed to carry out reasonable procedures in developing the report, applied an unfortunately slanted analysis, and reached fundamentally wrong conclusions," PPL EnergyPlus said in the reply.

Paul T. Champagne, president of PPL EnergyPlus, said the company's reply clearly refutes all the PUC charges and corrects a number of key errors and deficiencies. (A copy of PPL's reply is available online at: http://www.pplweb.com/files/ppl_pucresponse.htm)

The report claims that PPL acted improperly in the Pennsylvania-New Jersey-Maryland Interconnection capacity market. Companies that sell electricity through the PJM are required to have capacity to ensure the reliability of electricity service.

"PPL EnergyPlus acted ethically and legally in this market, as we do wherever we do business," said Champagne. "We are deeply disappointed in the commission's inaccurate report, which resulted in significant negative publicity for a company that has been at the forefront of supporting the highest of standards in open, competitive electricity markets."

Thursday's reply, Champagne said, provides a point-by-point refutation of the charges made in the PUC report last week. In making its report, the PUC referred the matter to the U.S. Department of Justice, the Federal Energy Regulatory Commission and the Pennsylvania Attorney General.

Champagne pointed out that FERC already has completed two investigations of the operation of the PJM capacity market, and found no reason to take action against PPL.

In its reply, PPL says that the PUC examination involved none of the procedures that would constitute a serious and thorough investigation. "[T]here was no independent fact-finding, no interviews of witnesses, and no review of documents and records other than various filings and PJM materials submitted. Factual assertions by PPL's detractors were accepted as true with no effort to test their accuracy," the reply says.

The reply also points out that PPL requested an opportunity to meet with PUC staff to discuss any concerns the commission might have, but the company was refused such an opportunity.

PPL's capacity marketing group, the reply says, had an objective to buy low and sell high. "Far from being manipulation, this is the essence of valid market behavior." The capacity credit market fundamentals, not actions by PPL, made capacity tight in early 2001.

During the fall of 2000, PPL's capacity marketers recognized, based on publicly available information, a likelihood that prices would increase in this market. The marketers carried out a straightforward program aimed at making money if this occurred, buying capacity for early 2001 during 2000 as others were selling at relatively low prices.

Nothing prevented any other market participant from acquiring capacity in the same manner as PPL acquired it, the reply says. "The reason PPL ended up being the only firm with a long position in capacity at the start of 2001 was its success in forecasting the unusual market conditions that came to exist in early 2001."

The reply points out that in the fall of 2000, PPL itself was offering to sell 2001 capacity when it could earn a return by doing so. "PPL's willingness to part with 2001 capacity belies any desire to use its position to exclude (other participants), as distinct from earning money on legitimate business trades," the reply says.

"PPL's capacity trading activities were not motivated by any desire to harm retail competitors or oust participants that lacked their own generating capacity. PPL acted solely to earn profits on capacity trades," said PPL in the reply.

The company points out in the reply that the Federal Energy Regulatory Commission had approved the design and operation of the PJM capacity market and has since approved changes to that market.

In its reply, the company also takes issue with a PUC claim that PPL's capacity market activities caused a decline in the number of customers buying electricity from suppliers other than Pennsylvania's electricity delivery companies.

"The report badly distorts the effect that a brief rise in capacity prices could have had on retail competition. It is, frankly, indisputable that high wholesale energy prices during 2000 and 2001, coupled with the retail rate caps in Pennsylvania, was the reason for the decline in retail load sold by alternative retail suppliers," according to the PPL reply.

The company's reply points out that wholesale energy prices - excluding any capacity charges - started increasing in early 2000 and by the fall of that year, many retailers were exiting the competitive market. "The additional increment of capacity cost - which in any event was a small fraction of the energy component - was simply irrelevant," PPL's reply says.

PPL's reply also makes the following points:

-- The PUC's assertion that PPL sought to delay changes in PJM capacity market rules is groundless. The company documents the rules change discussions, clearly demonstrating that there was little or no delay in the PJM process and, in any event, no delay attributable to PPL.
-- In making its market manipulation charge against PPL, the PUC does not apply any coherent antitrust standard.
-- The PUC supported the establishment of a competitive capacity market at PJM. If the PUC would rather see a market in which capacity prices are guaranteed, it should seek changes with appropriate regulators, not through retroactive attempts to restrain market participants.

"It is unfortunate that it has become necessary for PPL to respond to the commission's report in this manner," said Champagne. "But the report and the incendiary statements of individual commissioners made harsh and sweeping charges against PPL that caused serious damage to its shareowners and the company's reputation - damage that inevitably will also cause harm to PPL customers. PPL, therefore, could not responsibly let the erroneous charges stand uncorrected."

Champagne said PPL remains confident that any fair investigation of PPL's market activity will confirm that the company acted legally and ethically.

PPL Corporation, headquartered in Allentown, Pa., controls or owns more than 10,000 megawatts of generating capacity in the United States, sells energy in key U.S. markets, and delivers electricity to nearly 6 million customers in Pennsylvania, the United Kingdom and Latin America.

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