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PPL exec jumps from one side of electricity market to other

Electric companies lack external oversight.

By Sam Kennedy, Of The Morning Call

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PPL Corp.'s David DeCamppli jumped from one side of Pennsylvania's wholesale electricity marketplace to the other in the span of a weekend.

On March 2, he was president of PPL's Pennsylvania utility segment, which works on behalf of PPL customers to buy electricity at the lowest possible rate from wholesale vendors.

Three days later, he was working for one of those vendors after being named president of PPL's marketing segment, which sells electricity at the highest price possible to maximize profits for the company's shareholders.

DeCamppli's job change highlights two peculiar aspects of Pennsylvania's deregulated electricity market:

- A corporation such as PPL can participate in the wholesale electricity market as both buyer and seller — rolls that, according to basic economic theory, are supposed to be adversarial.
- The effectiveness of this market at setting fair prices for consumers relies primarily on the honor system.

"It's an honor system that is based and steeped in federal law," DeCamppli stressed, noting that violators could be prosecuted. "I know damn well that if I do possess that information, I cannot use it. I don't look good in an orange striped suit."

Asked if he has any insider information from PPL Electric Utilities that could give him an unfair advantage at his new job, DeCamppli said, "No, not really."

But even if he did, he added, he wouldn't act on it, because PPL has thoroughly indoctrinated him on the federal rules that prohibit such behavior. "I was drilled, and I was tested."

Yet the Federal Energy Regulatory Commission, which promulgated the rules on insider information, has no independent means to identify violators.

"If [a problem] comes to the commission's attention, then the commission looks into it," FERC spokeswoman Mary O'Driscoll said. Such a case might arise, she explained, "if someone called us to complain about it."

Honor system

So, how do consumers know that insider information doesn't somehow make its way from PPL's utility segment to its marketing segment, called PPL Energy Supply, or vice versa? Or for that matter, how do consumers know such violations don't occur at, say, FirstEnergy of Akron, Ohio, or Exelon of Chicago, Ill., or Dominion of Richmond, Va.? After all, those corporations also participate in both sides of the wholesale electricity market that distributes power throughout the Mid-Atlantic region.

Consumers must take it on faith that PPL and its counterparts, and the thousands of individuals they collectively employ, are honest and upright, and will remain so in the face of any temptation presented by the billions of dollars that flow through the electric industry.

"Personnel are supposed to have read and agreed to the rules, and that's the extent of the enforcement," said Robert McCullough, a Portland, Ore.-based energy consultant. "It's almost impossible to catch people within the same company talking to each other when they shouldn't, because they don't even have to leave the building."

Gerry Norlander, former president of the Public Utility Law Project in Albany, N.Y., echoed that concern: "It would probably take a whistle-blower" to bring any violations to light, he said.

Specifically, Norlander wondered if DeCampli's understanding of PPL Electric Utilities' purchasing strategies would give PPL Energy Supply an edge. DeCampli said it would not and described the safeguards that protect the electricity market as "bulletproof."

At PPL, at least, employees on the selling side and those on the buying side are housed in different buildings, situated on opposite sides of Ninth Street at the company's downtown Allentown headquarters. And when someone such as DeCampli is transferred, his computer access is adjusted accordingly.

Even so, executives sometimes cross paths. DeCampli, for example, is bound to find himself at executive meetings with his successor at PPL Electric Utilities, Gregory N. Dudkin — a potential buyer of the electricity DeCampli's unit sells.

Dudkin will have to leave the room and wait in the hallway during certain DeCampli presentations. Similarly, DeCampli will have to go outside when Dudkin speaks. Of course, PPL Chief Executive William H. Spence and more than a dozen other company officials in attendance at meetings may hear from both. But according to PPL spokesman George Lewis, the participants understand they must keep what they learn to themselves.

Lewis said employees go through annual FERC compliance training, taking part in an online tutorial and exam. Employees learn that if they receive proscribed insider information, they should alert a supervisor.

"These are rules we take very seriously," he said. "It shouldn't be an issue if we are following our rules and procedures about not sharing information across business lines."

Price increases

McCullough, who in 2007 helped the Illinois attorney general win a \$1 billion settlement from electric companies,

has analyzed data from the Energy Information Agency, a division of the U.S. Department of Energy, and concluded the Pennsylvania electricity market is not functioning as advertised. According to his analysis, the price of electricity in the state is diverging from the national average.

For example, in 2008, a year before deregulation took full effect in PPL's service territory, the 12-month-average price in Pennsylvania was \$93.36 a megawatt hour, which was about 4 percent less than the national average. But in 2011, a year after the deregulation pivot-point, the Pennsylvania average was \$104.66, or about 5 percent more than the national average.

Perhaps the best-known example of internal collusion happened a decade ago on the West Coast. A catastrophic spike in electricity prices led the FBI to discover that the newly deregulated electricity market had been manipulated by traders of now defunct Houston-based Enron Corp. One of the schemes was nicknamed Death Star.

No one has suggested collusion is behind the growing differential between Pennsylvania's prices and the national average. McCullough readily admits he cannot say what, exactly, is the cause, because just as an electron is unlike any other particle, so the electricity market is unlike any other market.

"It's so complicated," he said. "Abuses are so hard to catch."

In its purest form, a market is an actual place, such as a grocery store, that a person can step into and see and touch the goods being bought and sold. The marketplace for electricity, by contrast, is an underground room at an unmarked industrial park building near Valley Forge. It is the control room of PJM Interconnection — the organization, owned collectively by both buyers and sellers of electricity, that manages the regional power grid.

Further challenging free-market ambitions, electricity is, in academic parlance, "inelastic." It cannot be stored like grain. And it has no substitute. If the price of corn goes up, the consumer can switch to rice. But there's no realistic alternative to electricity when it comes to lighting one's home.

PJM Interconnection contracts an outside company to monitor the electricity market for signs of problems. That company, Monitoring Analytics, used to be a PJM division, but PJM spun it off to ensure its independence. Joseph Bowring, president of Monitoring Analytics, said he is satisfied that the market is functioning properly and serving consumers well.

Bowring makes his judgments by examining electricity bids and prices as well as underlying costs for signs of something awry, such as price fixing. But like FERC, he does not have any special insight into the internal dynamics of companies such as PPL.

"We tend not to look at this kind of institutional detail," Bowring said.

The best way to avoid the potential for conflict, according to McCullough, is to return to a government-regulated market, which Pennsylvania has abandoned.

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