EXHIBIT NO. ________

BEFORE THE
PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Review of the Reconciliation Rider of The Dayton Power and Light Company	)))	Case No. 20-165-EL-RDR

PUBLIC VERSION

DIRECT TESTIMONY
OF
DEVI GLICK

On Behalf of
Office of the Ohio Consumers' Counsel
65 East State Street Suite 700
Columbus, Ohio 43215

September 12, 2023

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I. INTRODUCTION AND PURPOSE OF TESTIMONY

Q1. PLEASE STATE YOUR NAME AND OCCUPATION.

A1. My name is Devi Glick. I am a Senior Principal at Synapse Energy Economics, Inc. My business address is 485 Massachusetts Avenue, Suite 3, Cambridge, Massachusetts 02139.

Q2. PLEASE DESCRIBE SYNAPSE ENERGY ECONOMICS.

A2. Synapse is a research and consulting firm specializing in energy and environmental issues, including electric generation, transmission and distribution system reliability, ratemaking and rate design, electric industry restructuring and market power, electricity market prices, stranded costs, efficiency, renewable energy, environmental quality, and nuclear power.

Synapse's clients include state consumer advocates, public utilities commission staff, attorneys general, environmental organizations, federal government agencies, and utilities.

Q3. PLEASE SUMMARIZE YOUR WORK EXPERIENCE AND EDUCATIONAL BACKGROUND.

A3. At Synapse, I conduct economic analysis and write testimony and publications that focus on a variety of issues related to electric utilities. These issues include power plant economics, power plant operations in organized electricity markets, utility resource planning practices, valuation of distributed energy resources, and utility handling of coal combustion residuals waste. I have submitted expert testimony on unit commitment practices, plant economics, utility resource needs, and solar valuation before state utility regulators more than a dozen states. In the course of my work, I develop in-house electricity system models and perform analysis using industry-standard electricity system models. I am proficient in the use of spreadsheet analysis tools, as well as optimization and electricity dispatch models. I have directly run EnCompass and PLEXOS energy modeling software's and have reviewed inputs and outputs for several other models.

Before joining Synapse, I worked at Rocky Mountain Institute, focusing on a wide range of energy and electricity issues. I have a master's degree in public policy and a master's degree in environmental science from the University of Michigan, as well as a bachelor's degree in environmental studies from Middlebury College. I have more than 10 years of professional experience as a consultant, researcher, and analyst. A copy of my current resume is attached as DG-1.

Q4. DO YOU HAVE ANY EXPERIENCE WITH THE PJM AND MISO ELECTRICITY MARKETS?

A4. Yes, I have evaluated how utilities commit and operate their power plants in the PJM and MISO electricity markets across multiple states, including Ohio, Indiana, Michigan, Minnesota, and Wisconsin, for expert testimony and expert reports. I provide a list of proceedings where I have given testimony with my resume as DG-1.

Q5. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS CASE?

A5. I am testifying on behalf of the Office of the Ohio Consumers' Counsel ("OCC").

Q6. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO ("PUCO")?

A6. Yes. I provided testimony to the PUCO on December 29, 2021 in Case Nos. 18-1004-EL-RDR et al. and on October 26, 2021 in Case No. 20-167-EL-RDR. I also contributed to comments submitted to the PUCO on May 8, 2023 in Docket 21-0477-EL-RDR.

Q7. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A7. In my testimony for this proceeding, I review the costs charged from November 1, 2018 through December 31, 2019 ("the audit period") to the Dayton Power & Light Company ("DP&L" or "the Company") by the Ohio Valley Electric Corporation ("OVEC") under the Inter-Company Power Agreement ("OVEC Agreement"). I review the revenue that DP&L received for selling the power provided by the generation assets under OVEC's management into the PJM market, and the resulting costs and revenues passed on to DP&L consumers through the Reconciliation Rider. Next, I review DP&L's projections for how much it would charge consumers under the Reconciliation Rider during the audit period and compare those projections to other contemporary analysis assessing the long-term cost of remaining in the OVEC Agreement, and to the costs DP&L actually paid. Finally, I review the prudence of OVEC's unit commitment practices, and DP&L's oversight of operational and planning decisions made at the OVEC units during the audit period.

Q8. HOW IS YOUR TESTIMONY STRUCTURED?

A8. In Section 2, I summarize my findings and recommendations for the PUCO. In Section 3, I provide background on the OVEC plants and the contract that governs the plants' operations.

In Section 4, I evaluate the costs paid by DP&L's consumers under the Reconciliation Rider during the audit period. I discuss how DP&L has paid unreasonable charges significantly above the market value of energy and capacity in PJM to OVEC, and now seeks to pass on these excess costs to its consumers through the Reconciliation Rider.

In Section 5, I review contemporaneous analysis conducted by DP&L and other OVEC sponsors on the OVEC plants economics' during the audit period.

In Section 6, I discuss my concerns with the auditor's failure to review the prudence of fuel cost and variable operations and maintenance (O&M) expenses incurred at the OVEC plants during the audit period. I outline best practices for reviewing the operational practices of power plants to access the prudence of variable costs incurred. I present evidence of OVEC's uneconomic operational practices that are driving the substantial losses at the units.

Q9. WHAT DOCUMENTS DID YOU USE FOR YOUR ANALYSIS, FINDINGS, AND OBSERVATIONS?

A9. My analysis relies primarily upon the following information: (1) the audit report ("Audit Report") performed in this proceeding by Vantage Energy Consulting, LLC ("Vantage"); (2) the audit reports performed by London Economics for Duke Energy Ohio in Case No. 20-0167-EL-RDR and for the Ohio Power Company ("AEP Ohio") in Case No. 18-1004-EL-RDR; (3) OVEC's 2020 annual report; (4) discovery responses of DP&L associated with the audit; (5) information filed with the U.S. Bankruptcy Court when FirstEnergy Solutions attempted to cancel its obligations under the OVEC Agreement; (6) the Public Versions of my Direct Testimony in Case No. 20-0167-EL-RDR relating to Duke Energy Ohio's Price Stabilization Rider and in Case No. 18-1004-El-RDR relating to AEP Ohio's Power Purchase Agreement Rider; and (7) Public Discovery Responses from Case No. 20-0167-EL-RDR and Case No. 18-1004-El-RDR. In addition, I rely on some public information associated with prior proceedings relating to the OVEC plants and, to a limited extent, I rely on certain external, publicly available documents such as State of the Market reports for

PJM. I also rely on my prior knowledge of the OVEC plants from other cases in which I testified or submitted comments regarding OVEC.[1]

II. FINDINGS AND RECOMMENDATIONS

Q10. PLEASE SUMMARIZE YOUR FINDINGS.

A10. My primary findings are:

1. From November 1, 2018 to December 31, 2019, DP&L incurred $14.9 million in above-market costs for power from the OVEC plants and passed those costs on to consumers.

2. OVEC's above-market costs were projected to be [redacted] dollars between 2018 and 2019 when the DP&L obtained the PUCO's approval in 2017 to collect OVEC costs as a hedge under the Reconciliation Rider. This shows that even at the time that DP&L requested the Rider, it knew that it was likely to be a bad hedge for consumers. DP&L then failed to monitor whether the hedge was actually providing any value to consumers and failed to act to protect customers from the associated losses.

3. Vantage failed to evaluate the prudence of OVEC's operational practices at the Kyger Creek and Clifty Creek power plants and the variable costs incurred as a result of its operations as part of its audit. This is concerning as review of fuel and variable O&M costs to ensure they were prudently incurred is required in the audit scope approved by the PUCO.

4. OVEC uneconomically operated its two power plants, Kyger Creek and Clifty Creek, which led to lower market revenues and therefore higher net costs to operate the plants than it would have incurred if it had limited operations to periods when the plant's production costs equaled or were below energy market prices. These additional costs, which it seeks to pass on to consumers, could have been mitigated with more prudent unit commitment practices.

[1] PUCO Case No. 20-167-EL-RDR, PUCO Cases Nos. 18-1004-EL-RDR, et al., PUCO Case No. 21-477-EL-RDR and Michigan Cases U-20224, U-20530, U-20804, U-20805, U-21052, U-21261.

Q11. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.

A11. Based on my findings, I offer the following chief recommendations:

1. The PUCO should disallow the entire $14.9 million in above-market energy and capacity charges collected from consumers related to the OVEC plants during the audit period and find that DP&L acted imprudently by including these costs in the Reconciliation Rider, and not taking action to minimize the above market costs incurred at the OVEC plants.

2. The PUCO should find that the OVEC plants were uneconomically committed, and thus incurred excess variable costs under the Reconciliation Rider during the audit period.

3. The PUCO should require an FAC-type analysis process be used to determine whether DP&L and OVEC operated the plants under least-cost supply principles. It is my understanding that the PUCO has recommended such analysis in the past.

4. The PUCO should require DP&L and OVEC provide documentation of the daily unit commitment decisions used for the OVEC plants whenever they are committed with a must-run status before cost recovery is allowed. The auditor should be required to review this documentation as part of its review of the prudence of variable costs incurred at the OVEC plants and their market dispatch behavior.

5. The PUCO should put DP&L on notice that it will also disallow collection in future cases for OVEC costs incurred as a result of imprudent unit commitment decisions that are not in the best interest of retail ratepayers.

III. DP&L PURCHASES POWER FROM OVEC UNDER THE OVEC AGREEMENT.

Q12. WHAT IS OVEC AND HOW IS IT RELATED TO DP&L'S CONSUMERS?

A12. OVEC is jointly owned by twelve utilities in Ohio, Indiana, Michigan, Kentucky, West Virginia, and Virginia. OVEC operates two 1950s-era coal-fired power plants— (1) Kyger Creek, a five-unit, 1,086 MW plant in Gallia County, Ohio, and (2) Clifty Creek, a six-unit, 1,303 MW plant, in Jefferson County, Indiana. The OVEC plants were originally built to provide power for the Piketon uranium enrichment facility, but the facility ceased doing uranium enrichment and OVEC ceased selling power to the Department of Energy for the Piketon plant effective September 30, 2003.[2]

Today, the plants provide their output to the twelve owners under the OVEC Agreement. DP&L has a 4.90 percent ownership share of OVEC. The OVEC agreement was originally signed on July 10, 1953 and then amended on August 11, 2011, extending the operation of the plants and the owner's commitment to take the power produced by the plants.[3] It governs each company's rights and duties as to the power produced by the OVEC plants. OVEC bills the sponsoring companies for their shares of energy, capacity, and ancillary services under the OVEC Agreement. Each sponsoring company's power is sold into the PJM market, and each company receives the resulting revenues. In Ohio, a Reconciliation Rider was approved by the PUCO which flowed to DP&L customers the net impact of the Company's contractual entitlements associated with OVEC (i.e., the positive or negative difference between the OVEC costs billed to DP&L under the OVEC Agreement and OVEC revenues received from

[2] Ohio Valley Electric Corporation, Annual Report – 2021 (p. 1).

[3] *Id*.

the PJM market).[4] To date, DP&L consumers have only received charges under the rider, no credits, except for a small credit for one month in November 2018.

Q13. DO YOU HAVE ANY PRIOR EXPERIENCE WITH THE OVEC PLANTS?

A13. Yes. I filed testimony before the PUCO on the prudency of OVEC's costs paid by AEP Ohio and Duke Energy Ohio consumers and the long-term cost-effectiveness of the OVEC Plants in Case Nos. 18-1004-EL-RDR et al. and Case No. 20-167-EL-RDR.[5, 6] I am scheduled to file testimony in docket 21-0477-EL-RDR on October 10th.

I also filed testimony before the Michigan Public Service Commission assessing the prudence of power supply costs incurred by Indiana Michigan Power, a subsidiary of AEP. Indiana Michigan Power obtains power from the OVEC plants for its consumers in Indiana and Michigan. Table 1 below lists all the cases in which I have filed testimony on the prudency of the OVEC plants and agreement:

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[4] *In the Matter of the Application of the Dayton Power and Light Company to Establish a Standard Service Offer in the Form of an Electric Security Plan*, PUCO Case No. 16-395-EL-SSO, Opinion and Order at p. 11, 34-35, 55-56 (October 20, 2017).

[5] Direct Testimony of Devi Glick, PUCO Case Nos. 18-1004-EL-RDR, et al.

[6] Direct Testimony of Devi Glick, PUCO Case No. 20-167-EL-RDR.

Table 1: Prior and current OVEC dockets with testimony filed/ to be filed by Devi Glick

Case #	Date of Testimony	On Behalf of
Ohio		
21-477-EL-RDR (upcoming docket)	October 10, 2023	Citizens Utility Board of Ohio, Union of Concerned Scientists
20-165-EL-RDR (current docket)	September 12, 2023	Ohio Consumers' Counsel
18-1004-EL-RDR, et al.	December 29, 2021	Ohio Consumers' Counsel
20-167-EL-RDR	October 26, 2021	Ohio Consumers' Counsel
Michigan		
U-20805	April 27, 2023	Attorney General of Michigan
U-21261	March 23, 2023	Sierra Club
U-21052	March 9, 2022	Sierra Club
U-20530	August 21, 2021	Attorney General of Michigan
U-20804	March 12, 2021	Sierra Club
U-20224	October 23, 2020	Sierra Club

Q14. BASED ON YOUR EXPERIENCE WITH OVEC IN THE CURRENT CASE AND THESE OTHER DOCKETS, ARE THESE PLANTS PROVIDING VALUE TO THE CONSUMERS?

A14. No. These plants are old, inefficient, and costly to maintain and operate. They are also increasingly uncompetitive in the market, due in large part to the entry and abundance of new renewable generation and gas facilities that are coming online. As a result, OVEC's costs for energy and capacity are significantly higher than market prices for energy and capacity. These high costs are all passed on to the consumers of the twelve entities (including utilities) that have an ownership share in OVEC.

The Michigan Public Utility Commission agreed with my assessment that consumers are being charged above market prices for power from OVEC. In Case No. U-20804 and Case No. U-21052, dockets in which AEP subsidiary Indiana Michigan Power Company (I&M) filed its power supply cost recovery plans, the Commission issued a warning that it would disallow OVEC prices above market in the Company's subsequent power cost reconciliation dockets. The Michigan PUC followed through on this warning in Case No. U-20530 and disallowed $1.347 million in above-market power costs for OVEC for the calendar year 2020.

Q15. WHAT PORTION OF OVEC IS DP&L RESPONSIBLE FOR?

A15. DP&L's ownership share of OVEC, called a Power Participation Ratio ("PPR"), is 4.90 percent. This means that DP&L is responsible for 4.90 percent of OVEC's fixed and variable costs while also being entitled to a 4.90 percent share of OVEC's revenues from the PJM markets.[7] According to DP&L's responses to OCC's discovery requests, this translates into an installed capacity ("ICAP") share of about 109 MW.[8]

[7] Ohio Valley Electric Corporation, Annual Report – 2021 (p. 1).

[8] DP&L Response to OCC INT-04-22, Attachment 1.

Q16. HOW DOES DP&L COLLECT OVEC COSTS FROM CONSUMERS?

A16. My understanding is that the PUCO approved a Reconciliation Rider in Case No. 16-0395-EL-SSO to allow DP&L to collect these OVEC costs.[9] Under the Reconciliation Rider, DP&L provides consumers with the net costs or net revenues associated with DP&L's ownership share of the OVEC plants and its entitlement to 4.90 percent of OVEC's output under the OVEC Agreement. This means that if OVEC's costs exceed market revenues in a given year, DP&L's consumers pay the difference.

In 2019, the Ohio legislature approved H.B. 6, which replaced the Reconciliation Rider with the Legacy Generation Rider effective January 1, 2020 and extended the collection of OVEC costs by DP&L through 2030.[10]

Q17. DID THE BANKRUPTCY OF FIRSTENERGY SOLUTIONS ("FES") IMPACT DP&L'S OVEC ENTITLEMENT DURING THE AUDIT PERIOD?

A17. Yes. Starting in September 2018, OVEC allocated to DP&L a portion of FES' 4.85 percent share of energy and capacity based on DP&L's proportional ownership of the OVEC plants. DP&L paid the variable energy costs associated

[9] Vantage Audit Public, page 1.

[10] House Bill 6, Sec. 4928.148. (A), effective October 22, 2019. Available at https://search-prod.lis.state.oh.us/solarapi/v1/general_assembly_133/bills/hb6/EN/06/hb6_06_EN?format=pdf.

with this additional entitlement but was not responsible for any FES fixed costs or demand charges.[11]

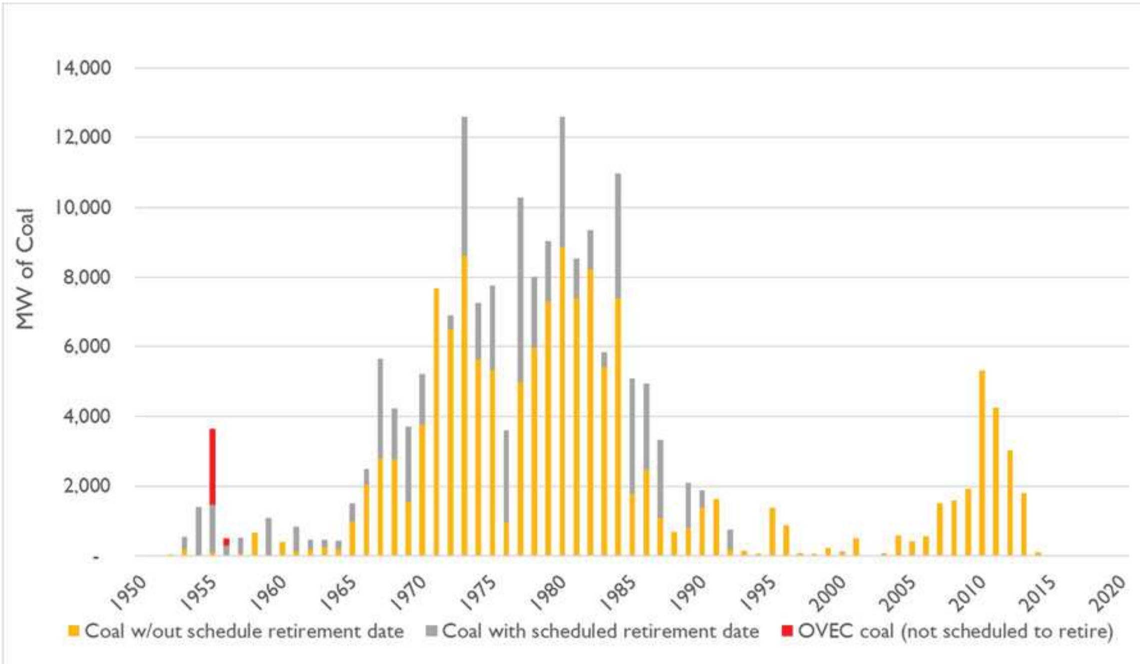
Q18. HOW LONG IS DP&L UNDER CONTRACT WITH OVEC UNDER THE OVEC AGREEMENT?

A18. The current OVEC Agreement expires in 2040.[12] The Clifty Creek and Kyger Creek Plants will each be 85 years old by then. As shown in Figure 1, Clifty Creek and Kyger Creek are the oldest utility-owned coal fired power plants in the United States (over 20 MW in size) without a scheduled retirement date.

[11] DP&L Response to OCC INT-04-04 Attachment 1 (Redacted). The monthly billing statements show the energy charges, but not the demand charges, from FES being distributed to the other owners starting in September 2018.

[12] Ohio Valley Electric Corporation, Annual Report – 2021 (p. 9).

Figure 1: Retirement status of current coal capacity by year online



Source: U.S. Energy Information Administration ("EIA"), form 860, supplemented by public information on updated unit retirement dates.

Q19. IS THIS TIMELINE CONSISTENT WITH INDUSTRY-WIDE COAL GENERATION TRENDS?

A19. No. DP&L's parent Company AES, as well as other Ohio owners of OVEC (AEP and Duke Energy) have all recently announced accelerated retirement dates for many of their coal plants based on the declining economics of operating aging coal plants.[13] All of these plants were built after the Eisenhower-era OVEC units, which have no firm retirement dates.

In a February 2022 news report, AES CEO Andrés Gluski touted AES's position as the "fastest growing US renewables developer and the largest supplier of corporate renewables contracts in the world." He went on to say that "To continue to accelerate the future of energy today, we are announcing our intent to exit coal generation by the end of 2025."[14]

Despite this assertion, and AES itself touting its record developing lower cost renewable alternatives, AES's subsidiary DP&L continues to pass on to its customers the above-market costs associated with the power from OVEC's aging coal plants.

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[13] Darren Sweeney, S&P Global. *AEP to retire more than 1,600 MW of coal capacity.* November 2020. Available at https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/aep-to-retire-more-than-1-600-mw-of-coal-capacity-61144417; Darren Sweeny, S&P Global. *AEP to close both units at 2,600 MW Rockport coal plant by end of 2028*. September 2021. Available at https://ieefa.org/aep-to-close-both-units-at-2600mw-rockport-coal-plant-by-end-of-2028/. Darren Sweeny, Krizka Danielle, and Del Rosario, S&P Global. *Duke Energy considering retiring 9,000 MW Of coal, adding vast amounts of storage.* September 2020. Available at https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/duke-energy-considers-retiring-9-000-mw-of-coal-adding-vast-amounts-of-storage-60476894; AES Corporation News, CISION PR Newswire. *AES announces intent to exit coal by 2025; reaffirms 7% to 9% annualized growth target through 2025; delivers on all 2021 financial and strategic objectives*. February 24, 2022. Available at https://www.prnewswire.com/news-releases/aes-announces-intent-to-exit-coal-by-2025-reaffirms-7-to-9-annualized-growth-target-through-2025-delivers-on-all-2021-financial-and-strategic-objectives-301490172.html.

[14] AES Corporation News, CISION PR Newswire. *AES announces intent to exit coal by 2025; reaffirms 7% to 9% annualized growth target through 2025; delivers on all 2021 financial and strategic objectives.* February 24, 2022. Available at https://www.prnewswire.com/news-releases/aes-announces-intent-to-exit-coal-by-2025-reaffirms-7-to-9-annualized-growth-target-through-2025-delivers-on-all-2021-financial-and-strategic-objectives-301490172.html.

IV. DURING THE AUDIT PERIOD, DP&L PASSED ON TO CONSUMERS UNREASONABLE CHARGES FOR OVEC POWER UNDER THE RECONCILIATION RIDER.

Q20. HOW DOES DP&L SERVE CONSUMER LOAD, AND WHICH ASSOCIATED COSTS ARE AT ISSUE IN THIS CASE?

A20. DP&L serves consumers who choose to buy their power from DP&L as the provider of last resort. DP&L buys power for these consumers through a competitively bid descending clock auction to obtain the lowest reasonable prices. This is known as the Standard Service Offer ("SSO") price.

Under the Reconciliation Rider, OVEC sells its output into the PJM market and the difference between OVEC's costs, and the market price is flowed through to consumers as either a credit or charge. DP&L's share of the OVEC output is not directly used to supply any of AES Ohio's consumers.

Q21. WHAT DOES IT MEAN THAT DP&L IS PAYING ABOVE-MARKET COSTS FOR OVEC'S POWER AND PASSING THOSE COSTS ON TO CONSUMERS UNDER THE RECONCILIATION RIDER?

A21. OVEC's costs are substantially higher than PJM market prices for the same energy, capacity, and ancillary services during the audit period. When OVEC sells its output into the PJM market, the difference between OVEC's costs and the PJM market prices are charged or credited to DP&L's consumers under the Reconciliation Rider.

During the audit period, DP&L's share of the above market costs incurred by the OVEC plants was $14.9 million, therefore the Reconciliation Rider charge was $14.9 million. Through this filing, DP&L is asking the Commission to force its consumers to subsidize DP&L's cost for owning the OVEC plants. DP&L's parent company (and the parent company's shareholders) otherwise would have paid the $14.9 million in above-market costs.

Q22. DID THE RECONCILIATION RIDER ACT AS A HEDGE TO MITIGATE SPIKES IN MARKET PRICES DURING THE AUDIT PERIOD?

A22. No. But this is not surprising because, as discussed above, DP&L projected that the Rider would incur net costs at the time it submitted its application for the rider in 16-395-EL-SSO.

To evaluate how much in above market costs DP&L incurred from the hedge, I compared the total cost billed to members of the OVEC Agreement by adding demand and transmission charges to the energy charges. I compared this cost to the value of the energy, capacity, and ancillary services provided by OVEC as sold into the PJM market. OVEC Agreement billing statements show that OVEC charged DP&L $44 million for 691,559 MWh during the audit period, for an average cost of $63.67 per MWh.[15] In contrast, the value of the market revenue that OVEC obtained for the energy, capacity, and ancillary services it sold into

[15] Calculated based on DP&L Response to OCC INT-04-04 Attachment 1 (Redacted).

the PJM market was equivalent to only $42.06/MWh for DP&L during the audit period.[16] This is well below the cost OVEC is charging DP&L, and as a result, substantial above-market costs were passed on to DP&L's consumers under the Reconciliation Rider during the audit period.

This continues a pattern of exceptionally high prices paid under the OVEC Agreement (relative to the market value) since at least 2015. As shown in Table 2, OVEC's average cost per MWh across all owners has regularly been substantially above the market value of its energy and capacity combined. As a result, the Reconciliation Rider did not act as a hedge against market price spikes during the audit period.

Table 2: OVEC power costs and revenues under the OVEC Agreement vs. market prices

	MWh Electricity	Total OVEC Charges billed ($Million)	OVEC ($/MWh)	Energy and capacity market value* ($/MWh)	Total above-market costs ($Million)
2015	8,681,829	$559.10	$64.40	$44.61	($171.85)
2016	9,946,877	$571.70	$58.66	$38.50	($200.55)
2017	11,940,259	$636.30	$54.27	$37.85	($196.00)
2018	12,146,856	$644.10	$54.29	$44.28	($121.56)
2019	11,238,298	$640.80	$57.04	$35.91	($237.45)
2020	9,033,056	$605.30	$67.00	$31.76	($318.41)
Total	**62,987,175**	**$3,657.30**	**$355.66**	**$232.91**	**($1,245.82)**

Note: 2015-2020 based on AEP costs from PUCO Case Nos. 18-104-EL-RDR et al.

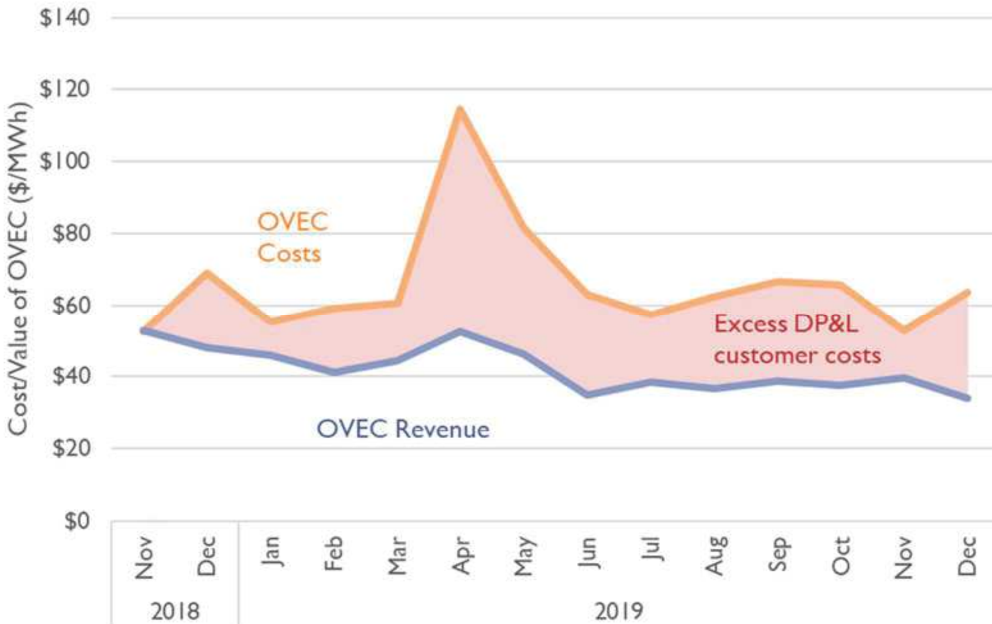
[16] Calculated based on DP&L Response to OCC INT-04-08 Attachment 1.

Source: Billed costs from OVEC annual reports; PJM locational marginal pricing from PJM data miner 2 available at https://dataminer2.pjm.com/feed/da_hrl_lmps; hourly load data downloaded from U.S. Clean Air Markets Database; and capacity prices from PJM State of the Market Reports.

Q23. HOW MUCH IN EXCESS COSTS WERE DP&L'S CONSUMERS CHARGED UNDER THE RECONCILIATION RIDER DURING THE AUDIT PERIOD?

A23. During the audit period, DP&L collected $14.9 million in above market costs under the Reconciliation Rider while providing consumers no additional value. In figure 2 below, I show the all-in monthly charges and monthly market revenues for OVEC being passed through to DP&L's consumers, and the net difference between the two that DP&L consumers are paying each month under the Reconciliation Rider. This shows that in nearly every month during the audit period (with the exception of November 2018), DP&L consumers were paying substantial additional costs under the Reconciliation Rider.

Figure 2: All-in OVEC cost/revenue for energy, ancillary services, and capacity compared to PJM market revenue from Nov 2018-Dec 2019



Source: DP&L Response to OCC INT-04-04, Attachment 1 (Redacted); DP&L Response to OCC INT-04-08, Attachment 1.

Q24. HOW DO YOU CALCULATE THE COST TO CONSUMERS UNDER THE RECONCILIATION RIDER?

A24. The public version of the Audit contained no data on the actual charges DP&L incurred under the Rider,[17] and the data contained in confidential table Exhibit III-2 is inconsistent with the source data sited.[18] To calculate the energy and capacity shares, DP&L provided the monthly billing from OVEC for 2018 and 2019 which includes MWh sold, energy, demand, and transmission charges, along with PJM

[17] Vantage Audit.

[18] *Id*, page 17.

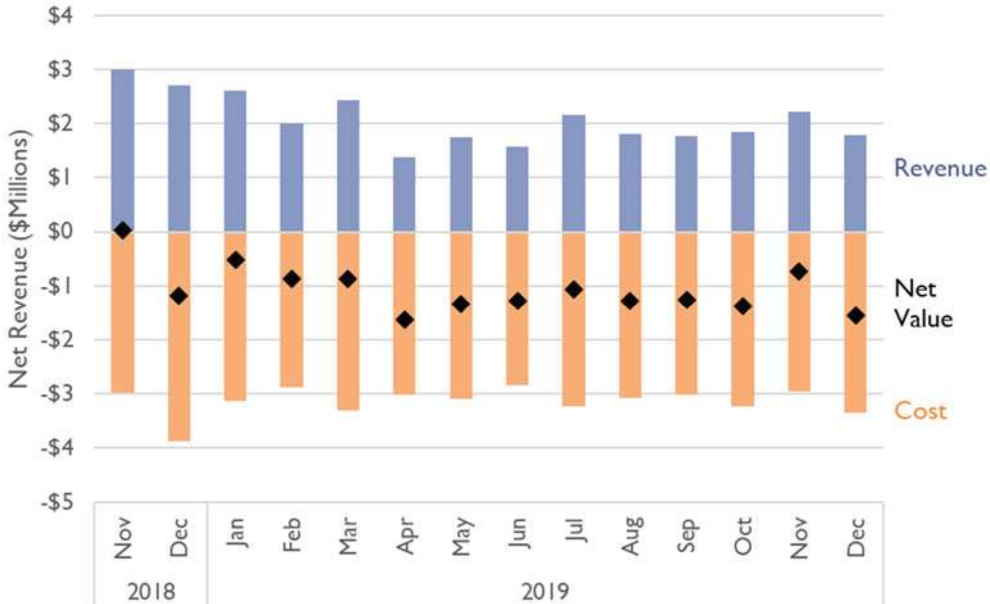
expenses and fees.[19] The Company also provided hourly unit energy revenue, capacity, and ancillary services revenue for the power that OVEC sold into the PJM market.[20] These DP&L responses to OCC's discovery requests are at Attachment DG-2 to my testimony.

To find the net value or cost passed on to consumers under the Reconciliation Rider, I assumed the cost of the OVEC contract was equivalent to the monthly billing from OVEC. I assumed the value of the OVEC Agreement would be equal to the sum of the energy, ancillary services, and capacity value. Figure 3 below shows DP&L's share of the monthly OVEC billing versus DP&L share of the revenue that OVEC obtained from selling the energy, ancillary services, and capacity into the PJM market for November 2018 through 2019. During every month of the audit period (with the exception of November 2018), DP&L consumers were paying substantial additional costs—an average of $1.1 million per month—under the Reconciliation Rider for each month of the audit period.

[19] DP&L Response to OCC INT-04-04, Attachment 1 (Redacted).

[20] DP&L Response to OCC INT-04-08, Attachment 1.

Figure 3: OVEC billing versus DP&L's share of PJM revenue from energy, ancillary services, and capacity (Nov 2018 to Dec 2019)



Source: DP&L Response to OCC INT-04-04, Attachment 1 (Redacted); DP&L Response to OCC INT-04-08, Attachment 1.

Q25. WHAT DO YOU CONCLUDE WITH RESPECT TO THE RECONCILIATION RIDER?

A25. Based on DP&L's own data, I find that under the Reconciliation Rider, during the audit period alone, the total billed charges cost DP&L's consumers $14.9 million more than the market price for the same amount of energy, capacity, and ancillary services.

The PUCO should disallow this entire amount because the OVEC plants were not operated prudently or in the best interest of retail ratepayers.

V. CONTEMPORANEOUS ANALYSIS INDICATED THAT HEDGE WAS NOT A GOOD DEAL FOR CONSUMERS AND THAT THEY WOULD PAY SUBSTANTIALLY ABOVE MARKET FOR OVEC POWER UNDER THE RECONCILIATION RIDER.

Q26. WHAT COSTS RELATED TO THE OVEC PLANTS DID DP&L COLLECT FROM CONSUMERS UNDER THE RECONCILIATION RIDER DURING THE AUDIT PERIOD?

A26. DP&L included $44 million in costs under the Reconciliation Rider. This is compared to only $29 million in energy and capacity market revenues collected during that same time. That means that the costs DP&L paid for OVEC power exceeded the revenues the utility earned from the PJM market for energy and capacity by $14.9 million during the audit period. November 2018 is the only time during the audit period where consumers were credited through the Reconciliation Rider.

Q27. DID DP&L CONDUCT ANY ANALYSIS TO SUPPORT ITS ORIGINAL APPLICATION FOR THE RECONCILIATION RIDER?

A27. Yes. In Case No. 16-0395-EL-SSO DP&L Company Witness Jeffrey Malinak[21] conducted analysis on the projected costs of the Reconciliation Rider over the next five years (2017-2021). Mr. Malinak projected the Reconciliation Rider charges would be around [redacted] per year to recover DP&L's investment in the OVEC facilities.[22] The Company claimed that without the Reconciliation

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[21] Confidential Direct Testimony of Company Witness Malinak in 16-395-EL-SSO was provided by DP&L Response to OCC RDP-04-23, Confidential Attachment 1.

[22] DP&L Response to OCC RDP-04-23, Confidential Attachment 1, p. 6.

Rider, as well as several other non-bypassable charges, [redacted].[23] Mr. Malinack went on to say that reduction of elimination of the riders "could jeopardize DP&L's ability to provide safe and reliable service to its customer and modernize its distribution grid."[24] The rider was projected to total approximately [redacted] over six years.[25]

Q28. HOW CLOSELY DID DP&L'S PROJECTIONS OF THE IMPACT OF THE RECONCILIATION RIDER ALIGN WITH THE CHARGES/ CREDITS THAT WERE PASSED ON TO ITS CUSTOMERS?

A28. Based on analysis presented in Case No. 16-0395, DP&L projected substantial net revenue losses during the 6-years that the Rider was originally planned to be in place between 2017-2022. Specifically, DP&L projected that ratepayers would incur [redacted] in net costs over six years. Of that, [redacted] was projected to be incurred in 2018 and [redacted] in 2019. The actual net costs that DP&L incurred over the six years was [redacted] $48 million,[26] with $6.0 million incurred in 2018 and $11.6 incurred in 2019. Figure 4 shows the Company's projected performance of the Reconciliation Rider and the actual charges that have been incurred in the years since the rider was approved.

[23] DP&L Response to OCC RDP-04-23, Confidential Attachment 1, p. 5.

[24] Public Direct Testimony of R. Jeffrey Malinak, Case No. 16-395-EL-SSO, p. 8.

[25] DP&L Response to OCC RDP-04-23, Confidential Attachment 1, Exhibit RJM-1.

[26] Not all these charges were incurred through the Reconciliation Rider because it was replaced with the Legacy Generation Rider in 2020.

[redacted]

Source: DP&L Response to OCC RDP-04-23, Confidential Attachment 1; See sources for Table 2 for Actual data sources.

These substantial above-market charges were incurred in part due to DP&L's failure to prudently manage the operations and commitment of the OVEC units into the PJM Day-Ahead Energy Market. In every year through 2019, DP&L projected that the OVEC plants would [redacted] and that is precisely what happened. These excess costs were passed onto DP&L ratepayers through the Reconciliation Rider.

Q29. WILL THE CURRENT LEGACY GENERATION RIDER LIKELY PROVIDE VALUE TO DP&L RATEPAYERS GOING FORWARD?

A29. No. My analysis, outlined above, demonstrates that to date the Reconciliation Rider has passed on substantial costs to DP&L ratepayers. Further, I do not see any scenario where the economic trends that have rendered the OVEC plants uneconomic rapidly reverse for the next few years. These findings are consistent the Auditor's findings from Case No. 18-1004-EL-RDR that the OVEC plants are not likely to be viable on a going-forward basis.[27] In support of this finding, the auditor cited evidence that the OVEC plants' cost at over $50/MWh is consistently higher than both the levelized cost of energy[28] for a new combined cycle gas turbine in PJM, which ranged between $42 to $47/MWh in 2018, and higher than the price of energy and capacity in PJM in 2018, which totaled $41.25/MWh. This means that assuming market prices stay low as they are today, the OVEC plants are not only more expensive than energy and capacity in the market, but also more expensive than the cost required to recover the investment on a new combined cycle gas turbine plant in the PJM market.

[27] Docket 18-1004-El-RDR. Audit of the OVEC Power Purchase Agreement Rider of Ohio Power Company, Public Version. ("Audit Public Version"). Prepared for the Public Utilities Commission of Ohio by London Economics International, LLC, p. 26.

[28] Levelized Cost of Energy, or LCOE, takes the lifetime cost of an asset and spreads it out over the lifetime generation of the asset. It spreads out the present value of building, operating, and maintaining the plant over the lifetime of the lifetime MWh generation of the plant.

Q30. WERE THERE OTHER CONTEMPORANEOUS ANALYSES OF OVEC's ECONOMIC VIABILITY CONDUCTED DURING THE AUDIT PERIOD?

A30. Yes. There were several analyses performed between 2015 and the present; I summarize their findings in Table 3 below. The findings of these analyses all align with the findings of my review of the audit period. Specifically, they all find that the costs of the OVEC plants are projected to far exceed the value the plants provide to ratepayers going forward.

Table 3: Summary of prior OVEC and OVEC Agreement Studies

Date Completed	Completed by / for	Finding
April, 2019	FirstEnergy Solutions[1]	Forward-looking analysis of OVEC Agreement through 2040; found $267 million in losses relative to market for I&M's share of OVEC
December, 2018	Moody's Analytics[2]	Assessment of the OVEC Agreement; found annual losses of $16–$20 million
March, 2017	ICF International, for Duke Energy Ohio[3]	Forward-looking analysis of OVEC Agreement: 2018-2025; found $67 million in losses relative to market for I&M's share of OVEC
2016	AEPSC for AEP[4]	Forward-looking analysis of the OVEC Agreement; found the plants would be uneconomic into the 2030's and on a present-value basis the OVEC Agreement was projected to have a net negative value

Source: 2 Expert declaration of Judah Rose (Doc. 46, filed Apr. 1, 2018), In re FirstEnergy Solutions Corp., No. 18-50757 (AMK) (Bankr. N.D. Ohio); 2Moody's Investors Service. December 2018. Credit Opinion: Ohio Valley Electric Cooperative.; 3 Revised Public Version of Supplemental Testimony of Mr. Judah L. Rose on behalf of Duke Energy Ohio, Inc. July 10, 2018, at 20, Exhibit 2, Ohio PUC Docket 17-0872-EL-RDR, accessible at http://dis.puc.state.oh.us/CasesByYearIndustry.aspx.;4 Michigan Case No. U-21261, Direct Testimony of Devi Glick, page 27.

VI. OVEC UNECONOMICALLY OPERATED THE CLIFTY CREEK AND KYGER CREEK POWER PLANTS DURING THE AUDIT PERIOD AND DP&L NOW SEEKS TO PASS THE RESULTING EXCESS COSTS ON TO ITS CONSUMERS.

A. OVEC operates its two power plants, Clifty Creek and Kyger Creek, uneconomically and incurs additional losses relative to market energy prices.

Q31. HOW OFTEN DID OVEC OPERATE ITS PLANTS DURING THE AUDIT PERIOD?

A31. OVEC operated the Clifty Creek and Kyger Creek plants at a 60 percent and 67 percent capacity factors in 2018 and 54 and 63 percent capacity in 2019,[29] respectively, despite both units incurring substantial revenue losses relative to the market. In fact, during the audit period, at least one unit was online at the Clifty Creek and Kyger Creek plants during 100 percent of the time respectively.[30] This shows that OVEC is not taking action to limit incurring negative energy margins at its plants, and instead is operating its plants even when it projects that doing so will incur negative margins. This is imprudent and not in the best interest of retail ratepayers.

[29] Vantage Audit, p. 38.

[30] EIA CAMPD database, EIA form 923, PJM data miner.

Q32. IS THERE EVIDENCE THAT OVEC OPERATED ITS PLANTS UNECONOMICALLY DURING MANY HOURS OF THE YEAR DURING THE AUDIT PERIOD?

A32. Yes. During the audit period, OVEC's variable costs exceeded market locational marginal prices nearly half the time the units were online. Additionally, for four months during the audit, the variable costs incurred by the OVEC plants exceeded the revenues the plants earned in the energy market.[31] This means that overall, consumers would have been better off if the plants had not operated at all during those four months. As discussed above, this contributed to the total of $14.9 million in above-market costs across the two plants for DP&L's consumers during the Audit period.[32]

Coal plants such as Clifty Creek and Kyger Creek require high capital costs to stay online, and therefore they need large positive energy margins (or sufficient capacity payments) to cover these fixed costs. When a plant loses money on a variable operating basis, that means that not only is it not covering its fuel and variable O&M costs, but it is also carrying no net revenues to offset significant fixed O&M and capital costs.

[31] DP&L Response to OCC INT-04-04, Attachment 1 (Redacted); DP&L Response to OCC INT-04-08, Attachment 1.

[32] *Id*.

Q33. HOW DID THE OVEC UNITS INCUR SIGNIFICANT LOSSES IF THEY WERE OPERATING WITHIN THE PJM MARKET?

A33. Generators operating within the PJM market generally commit their available units as either economic or must-run. For units committed economically, the market operator, PJM, has the responsibility for unit commitment and dispatch decisions. Those decisions prioritize reliability for the system as a whole, but then select plants to commit and dispatch based on short-term economics to ensure consumers are served by the lowest-cost resources available to the system. A plant committed as "economic" will operate only if it is the least-cost option available to the market (i.e., has a lower average commitment period cost than other resources available at the time).

While economic commitment and dispatch tends to be the norm for dispatchable power plants, for units such as OVEC's coal-fired power plants with long start-up and shut-down times, utilities sometimes instead elect to maintain control of unit commitment decisions and utilize a must-run commitment status. For these units, the utility determines independently when to commit a unit. Because units operated by the market (i.e., using economic commitment) follow short-term economic signals, they tend to cycle off when market prices are low and therefore do not generally incur significant operational losses.

A unit designated as must-run will operate with a power output no less than its minimum operating level.[33] The unit receives market revenue (and incurs variable operational costs) but does not set the market price of energy. If the market price of energy falls below its operational cost, a must-run unit will not turn off and can incur losses. Absent oversight from a Commission, these losses can be passed on to consumers.

The OVEC units stayed online for nearly all the audit period, despite incurring significant net revenue losses. This is because the plants were predominantly self-committed with a must-run status whenever they were available,[34] without regard for how much it would cost DP&L's consumers'. OVEC used no daily analysis to drive its unit commitment decisions during the audit period, as discussed below.

Q34. WHAT COULD DRIVE A POWER PLANT OPERATOR SUCH AS OVEC TO UNECONOMICALLY SELF-COMMIT ITS UNITS?

A34. There are many factors that could drive a power plant operator to uneconomically self-commit their units, but four main ones are: (1) a failure to evaluate the economics of daily unit commitment decisions; (2) failure to follow the results of daily unit commitment analysis; (3) incomplete accounting of variable unit costs

[33] Minimum operating level is an output threshold often determined operationally, and below which a generator is either less stable or operates inefficiently. Once the unit commitment decision is made, the level of generation output (above the minimum) is generally left to the market. The operating level is based upon the marginal running cost assumptions provided by the owner in the form of offers or bids to PJM.

[34] *See* DP&L Response to OCC INT-04-01.

in unit dispatch bids; and (4) minimum take provisions in fuel contracts that "lock in" costs that would otherwise be variable. In the case of OVEC in 2018 and 2019, it is clear that neither OVEC nor DP&L evaluated the economics of operating the plants on a daily basis.

Q35. DOES OVEC HAVE AN ECONOMIC INCENTIVE TO AVOID RUNNING ITS PLANTS IN UNECONOMIC CONDITIONS?

A35. No. The OVEC Agreement assigns plant operating costs and PJM revenues to OVEC's sponsoring organizations, effectively holding OVEC's revenues harmless during uneconomic generation. This dynamic allowed OVEC to maintain a net income in 2018 and 2019 even while the OVEC plants' variable costs exceeded locational marginal prices during many hours. In the absence of action by utility Commissions to disallow recovery of the full Rider cost, OVEC owners have no incentive to demand that the OVEC units change their practices and operate more economically. If anything, they have a disincentive, because aging plants with low utilization are harder to justify charging to ratepayers, and therefore tend to retire.

Q36. WHAT TYPE OF ANALYSIS WOULD YOU RECOMMEND THE PUCO USE TO REVIEW THE PRUDENCE OF DP&L AND OVEC'S OPERATIONAL PRACTICES?

A36. I recommend an FAC-type analysis process. In this case, the auditor should have determined whether DP&L and OVEC operated the plants under least-cost supply principles. It is my understanding that the PUCO has recommended such analysis in the past. Specifically, in Opinion and Order in Case No. 14-1693-EL-RDR, the PUCO stated that the prudency review for passing OVEC costs through to consumers should follow the same type of analysis used in a Fuel Adjustment Clause analysis.[35]

Q37. HOW SHOULD A FAC OR PSCR-TYPE ANALYSIS-PROCESS BE USED IN AN OVEC RIDER DOCKET?

A37. As part of the Reconciliation Rider review, the PUCO should require that DP&L demonstrate that the OVEC power plants were operated prudently and economically and in the best interest of retail ratepayers. This would require that OVEC either economically commit the units into the market on a daily basis or, at a minimum, conduct daily unit commitment economic analysis discussed in more detail below. DP&L and OVEC failed to produce such evidence, so the PUCO should disallow any monthly energy charges in excess of energy market revenues from the OVEC plants during the audit period. The imprudence and failure to act in the retail ratepayers' best interest is also evident from several months during 2019 where the OVEC plants incurred variable net losses relative to the market, and for months with net energy losses which were avoidable by following prudent market commitment practices and acting in the retail ratepayers' best interest.

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[35] *In the Matter of the Application Seeking Approval of Ohio Power Company's Proposal to Enter into an Affiliate Power Purchase Agreement for Inclusion in the Power Purchase Agreement Ride*r, Case No. 14-1693-EL-RDR, Opinion and Order at 86-89 (March 31, 2016).

Q38. DID DP&L AND OVEC OPERATE THE OVEC PLANTS USING LEAST-COST SUPPLY PRINCIPLES CONSISTENT WITH AN FAC-TYPE ANALYSIS?

A38. No. OVEC's and DP&L's continuous use of must-run commitment status at the OVEC plants, as discussed in more detail below, and their failure to perform a daily financial review to determine whether to use economic commitment status was not consistent with a least-cost approach and this directly resulted in the DP&L consumers paying above-market charges.

B. DP&L has limited control over the operations and management of the OVEC plants, despite its position on the operating committee and on the board of directors.

Q39. HOW ARE THE OVEC UNITS OPERATED AND MANAGED?

A39. According to the Amended and Restated OVEC Agreement that was in effect in 2019,[36] management of the OVEC units is governed by the 15-person Board of Directors, and operational decisions are delegated to the Operating Committee.

Q40. WHAT IS DP&L'S ROLE IN OPERATING THE OVEC UNITS?

A40. DP&L is a Sponsoring Company of OVEC, and as such has one member on the Board of Directors and is allowed to appoint one member to OVEC's Operating Committee. During 2019, Dave Crusey was a member of the OVEC Operating Committee, and Mark Miller was a member of the OVEC Board of Directors.[37]

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[36] The OVEC Agreement was subsequently updated on October 7, 2019 and effective November 15, 2019.

[37] DP&L Response to OCC INT-04-31.

DP&L can make requests and recommendations to the Operating Committee to change unit operations but claims that it needs "unanimous approval of the Operating Committee" to change the commitment status of the OVEC units.[38] I have attached these discovery responses to my testimony at Attachment DG-3.

This arrangement is concerning because it means that DP&L is asking to pass the costs associated with the OVEC plants onto its consumers, but DP&L has only limited authority to control operational and planning decisions that drive those costs.

C. DP&L and Vantage should request that OVEC conduct a daily unit commitment analysis, consistent with industry best practices. This analysis should be reviewed by the auditor in all future Reconciliation Rider and Legacy Generation Rider dockets.

Q41. DID THE AUDITOR, VANTAGE ENERGY CONSULTING, REVIEW OVEC'S UNIT COMMITMENT PRACTICES?

A41. No, as discussed above, the audit contains no discussion of unit commitment practices or associated analysis. This is concerning because the audit clearly states that the scope of the audit included the following elements:

1. "Auditor shall review the prudence of unit scheduling and bidding of energy into PJM-administered wholesale markets, including data-ahead and real-time energy markets…"[39]

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[38] DP&L Response to OCC INT-04-24.

[39] Vantage Audit, page 2.

2. "Auditor shall ensure that all OVEC's fuel (i.e., coal) and variable operations and maintenance (O&M) related expenses were prudently incurred and properly allocated to DP&L."[40]

To properly review the prudence of bidding and unit scheduling practices, as well as ensure that variable costs were prudently incurred, Vantage needed to review the daily unit commitment decision-making practices and analysis completed by OVEC. Vantage did not do this as part of the audit.

Q42. BASED ON YOUR REVIEW, DID OVEC USE ANY DAILY ECONOMIC ANALYSIS TO INFORM ITS UNIT COMMITMENT PROCESS AND OPERATIONS OF ITS PLANTS IN 2018 OR 2019?

A42. No. When asked about DP&L and OVEC's process of offering into the PJM markets, DP&L explained that [redacted].[41] Specifically, DP&L stated that during the audit period, the OVEC units (except Clifty Creek Unit 6 during summer ozone non-attainment periods) were self-scheduled into the PJM market with a must-run status at all times except when impacted by a planned, forced, or maintenance outage.[42] The term "self-schedule" has the same meaning

[40] *Id.*

[41] DP&L Response to VEC INT-02-09, Confidential Attachment 1.

[42] DP&L Response to OCC INT-04-01.

as "must-run." I have attached these discovery responses as Attachment DG-4 to my testimony.

Public discovery responses from Case No 20-167-EL-RDR confirmed that in 2019, OVEC did not conduct analysis on a daily basis to inform its unit commitment process. The decision to move to a daily analysis system was not made until 2020.[43] I have attached these discovery responses as Attachment DG-5 to my testimony. This means that OVEC was regularly self-committing the OVEC plants during the audit period, regardless of economics.

Q43. DOES OVEC HAVE THE INFORMATION IT NEEDS TO EVALUATE THE ECONOMICS OF ITS DAILY UNIT COMMITMENT DECISIONS?

A43. Yes. Day-ahead market prices are known with certainty for the next day and can be projected with a sufficient level of accuracy for the purposes of unit commitment. Fuel and variable O&M costs are also known with relative certainty a few days out, and start-up costs are known and should not fluctuate significantly over the course of the week. This means that at the time the utility makes a decision to self-commit a unit in the day-ahead market (i.e., to either bring the unit online, keep it online, take it offline, or keep it offline) it has the information needed to make a prudent decision. That decision should maximize projected net revenues/minimize projected net losses to ratepayers over a several-day period.

[43] Duke Response to OCC-RFA-03-006, Case No. 20-167-EL-RDR.

Q44. WHAT ARE STANDARD INDUSTRY PRACTICES UNDERTAKEN BY REGULATED UTILITIES TO ENSURE THEIR POWER PLANTS ARE ECONOMICALLY COMMITTED INTO THE MARKET?

A44. If a utility is going to self-commit a power plant outside of the market, it should rely on a robust, price-based forward-looking analysis process to replace the market's economic process.[44] OVEC co-owners AEP[45] and Duke[46] use such a daily unit commitment analysis to decide whether and how to commit their power plants into the market.[47] I have attached this testimony from Mr. Stegall (AEP) and Mr. Swez (Duke) as Attachment DG-6 to my testimony.

As part of this process, AEP and Duke review the forecasted energy market prices and projected variable operation costs for the next week (or another similar, multi-day time period) to project net operational revenues (or losses) for each unit for each individual day over the forecast period. If a unit is projected to be profitable, then ratepayers expect to see savings from operating the unit related to the acquisition of market-supplied power. If the unit is projected to lose money, then consumers would expect to see savings by the acquisition of market-supplied power.

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[44] The best practice for a utility is to economically commit its power plants into the market and allow the market to decide when to operate the plant based on economics.

[45] *See*, for example, the Rebuttal Testimony of Jason Stegall in Case No. U-20530.

[46] *See*, for example, the Direct Testimony of John Swez in IURC Case No. 38707 FAC123 S1.

[47] Even with robust daily unit commitment analysis, I have found utilities can ignore the result of their own analysis and "uneconomically self-commit" their power plants. A robust process with Commission oversight will dramatically decrease how much this occurs.

The data presented in these forecasts represents the market price information that and the unit cost data available to the plant owners at the time they are making unit commitment decisions. This market price data is readily available through PJM and widely used by plant operators. While it is true that market prices and other market inputs are constantly changing, there is a knowable set of information on unit costs and market prices at the time commitment decisions are made and submitted to PJM. Regardless of whether prices may continue to change, OVEC and DP&L can and should save the full set of information it has at the time of its decisions to allow the PUCO to access the prudence of its decisions.

Q45. HOW EXACTLY SHOULD OVEC BE USING THE RESULTS OF PRICE-BASED ANALYSIS TO INFORM ITS UNIT COMMITMENT DECISIONS?

A45. OVEC should either (a) commit its units as economic and let the market decide when to operate the units, or (b) make unit commitment decisions based on the results of its price-based analysis and document any deviations from its quantitative analysis. Specifically, OVEC should elect to self-commit its units as must-run on a forward-looking basis only if it expects to make positive energy market margins over a reasonable near-term period (incorporating consideration of start-up and shut-down costs), and the Company should commit it as "economic" when the expectation it will not run if it's projected to operate at a loss. This is the standard practice followed by AEP and Duke, as described in the testimony of Mr. Stegall and Mr. Swez, which I discussed earlier. DP&L and

OVEC's failure to follow this standard industry practice resulted in imprudent plant operations. As a result, DP&L incurred above-market variable costs which it is now asking to collect through the Reconciliation Rider.

Q46. SHOULD A UTILITY BE CONSIDERED TO HAVE MADE AN IMPRUDENT DECISION EVERY TIME IT DOESN'T MAXIMIZE ACTUAL REVENUES TO RATEPAYERS?

A46. Not necessarily. Utilities are expected to use accurate cost and pricing information and to make prudent decisions based on that information, but they are not expected to always be right. If market prices deviate significantly from what the utility reasonably projected, the Company's self-commitment decisions may not actually maximize net revenues. To be prudent, the utility's decision to self-commit its units must have been projected to maximize net revenues at the time the company made the must-run commitment decision.

On the other hand, utilities should also monitor the accuracy of their projections. If the utility finds it is consistently wrong in its projections, that information itself should provide feedback to the system and be used to drive changes to the utility's commitment process.

Q47. HOW DO COMMISSIONS REVIEW THE PRUDENCE OF UTILITY OPERATIONAL PRACTICES IN OTHER JURISDICTIONS?

A47. In Michigan, the Commission uses a two-step process: at the beginning of the year, the Company files a Power Supply Cost Recovery (PSCR) Plan; at the end of the year, there is a Reconciliation docket to reconcile the differences between projected power and fuel costs and actual power and fuel costs.

In Indiana, the Commission uses a Fuel Adjustment Clause (FAC) process that trues-up the difference between fuel costs the Company projected and costs that actually materialized every three months.

Both PSCR and FAC dockets constitute a prudency review of a utility's fuel and power supply practices where the Commission determines whether a utility acted reasonably to procure energy for consumers at the lowest cost. Such a prudence review should include an evaluation of the Company's operational practices at its power plants and the associated fuel costs that were incurred. To allow such a review, Companies must conduct and retain daily unit commitment decision-making analysis, submit that analysis for review, and document any deviations between the economic commitment status recommended by analysis and the Company's actual commitment decision. When the Company ignores the results of its own unit commitment analysis, uneconomically self-commits a plant, and then incurs (predictable) losses relative to the market without justification, the Commission can issue a disallowance for imprudently incurred fuel costs. This level of oversight more carefully aligns operational practices with economics.

Q48. SHOULD THE AUDITOR HAVE REVIEWED WHETHER DP&L'S AND OVEC'S PRACTICES WERE CONSISTENT WITH AN FAC-TYPE ANALYSIS?

A48. Yes. As I mentioned earlier in my testimony, the PUCO in its Opinion and Order in Case No. 14-1693-EL-RDR, stated that the prudency review for passing OVEC costs through to consumers should follow the same type of analysis used in a Fuel Adjustment Clause analysis.[48] Specifically, the auditor should have determined whether DP&L and OVEC operated the plants under least-cost supply principles.

Q49. DID THE AUDITOR PERFORM A FAC OR PSCR-TYPE ANALYSIS?

A49. No. The auditor should have reviewed whether the OVEC power plants were operated prudently and economically and in the best interest of retail ratepayers. This would require that OVEC either economically commit the units into the market or conduct daily unit commitment analysis discussed above. The auditor failed to perform any analysis as to how the OVEC plants were bid into the PJM Day-Ahead Energy Market, whether the bidding practices were prudent and whether they were in the best interest of retail ratepayers.

[48] *In the Matter of the Application Seeking Approval of Ohio Power Company's Proposal to Enter into an Affiliate Power Purchase Agreement for Inclusion in the Power Purchase Agreement Ride*r, Case No. 14-1693-EL-RDR, Opinion and Order at 86-89 (March 31, 2016).

Q50. DID DP&L AND OVEC OPERATE THE OVEC PLANTS USING LEAST-COST SUPPLY PRINCIPLES?

A50. No. As discussed above, OVEC's and DP&L's continuous use of must-run commitment status at the OVEC plants and their failure to perform a daily financial review to determine whether to use economic commitment status was not consistent with a least-cost approach and resulted in above-market charges.

VII. RECOMMENDATION

Q51. WHAT ARE YOUR RECOMMENDATIONS TO THE PUCO REGARDING DISALLOWANCES RELATING TO THE OVEC UNITS?

A51. The PUCO should disallow in this proceeding $14.9 million in above-market costs that DP&L collected from consumers under the Reconciliation Rider during the audit period. These costs should be disallowed on the basis that the Company's analysis filed at the time it requested the rider showed the hedge would lose consumers money, and the Rider than proceeded to lose money in almost every month, and DP&L failed to take any action to protect customers from these losses.

Q52. WHAT ARE YOUR RECOMMENDATIONS TO THE PUCO REGARDING OVEC'S UNIT COMMITMENT PRACTICES?

A52. The PUCO should put DP&L on notice that in future cases it will not allow OVEC energy costs or charges to be collected from DP&L customers, or the customers of any other sponsoring company, without evidence that the Clifty

Creek and Kyger Creek plants were economically committed during the audit period. In each Rider docket, the retained auditor should be required to review the prudence of OVEC's daily unit commitment practices, and therefore the prudence of the fuel and variable O&M costs incurred. The PUCO should not allow DP&L or any other sponsoring companies to pass along any energy charges without such evidence of economic commitment practices.

VIII. CONCLUSION

Q53. DOES THIS CONCLUDE YOUR TESTIMONY?

A53. Yes.

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing Direct Testimony of Devi Glick, on Behalf of the Office of the Ohio Consumers' Counsel (**Public Version**) was served via electronic transmission upon the parties below this 12th day of September 2023.

/s/ John Finnigan
John Finnigan
Assistant Consumers' Counsel

The PUCO's e-filing system will electronically serve notice of the filing of this document on the following parties:

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