

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of The)	
Dayton Power & Light Company for)	Case No. 16-0395-EL-SSO
Approval of Its Electric Security Plan.)	

In the Matter of the Application of The)	
Dayton Power & Light Company for)	Case No. 16-0396-EL-ATA
Approval of Revised Tariffs.)	

In the Matter of the Application of The)	
Dayton Power & Light Company for)	Case No. 16-0397-EL-AAM
Approval of Certain Accounting Authority)	
Pursuant to Ohio Rev. Code § 4905.13.)	

TESTIMONY OF

DEAN ELLIS

SENIOR VICE PRESIDENT, REGULATORY

AT DYNEGY INC.

Filed: November 21, 2016

1 **Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS?**

2 A. My name is Dean Ellis and my business address is 601 Travis Street, Suite 1400, Houston,
3 TX 77002.

4

5 **Q. BY WHOM ARE YOU EMPLOYED AND WHAT ARE YOUR RESPONSIBILITIES?**

6 A. I am employed by Dynegy Inc. ("Dynegy"). My title is Senior Vice President, Regulatory.
7 I am responsible for Dynegy's wholesale and retail market policy, as well as environmental
8 policy and government relations. I also oversee Dynegy's governmental and legislative affairs
9 activities, and regularly interact with the New York Independent System Operator ("NYISO"),
10 ISO New England ("ISO-NE"), PJM Interconnection, L.L.C. ("PJM"), the Midcontinent
11 Independent System Operator ("MISO") and the California Independent System Operator
12 ("CAISO"), along with certain state public utility commissions, the Federal Energy Regulatory
13 Commission ("FERC"), the United States Environmental Protection Agency ("US EPA"), and
14 various state legislatures. One of my primary responsibilities is support of Dynegy's
15 Commercial, Operational and Retail groups in their interactions with the wholesale and retail
16 markets. I am also responsible for working with industry stakeholders on energy and related
17 policy issues.

18

19 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?**

20 A. I have a Bachelor of Science Degree in Electric Power Engineering from Rensselaer
21 Polytechnic Institute in Troy, N.Y. Prior to working for Dynegy, I was Manager of Transmission
22 Studies for the New York Independent System Operator ("NYISO"). Prior to that, I held a variety

1 of engineering and construction roles pertaining to electric transmission, power generation and
2 critical facilities, including employment with a traditionally-regulated, vertically-integrated
3 utility. I am a licensed Professional Engineer in New York (inactive). I have direct experience
4 with the rules and regulations governing market participants in the wholesale market to which
5 Ohio belongs, the PJM market.

6
7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

8 A. This testimony is offered on behalf of Dynegy to respond to the proposed distribution
9 modernization rider ("DMR") submitted by The Dayton Power and Light Company ("DP&L") in
10 its October 11, 2016 amended application for a third electric security plan ("ESP III").

11
12 **Q. CAN YOU PLEASE DESCRIBE DYNEGY'S OPERATIONS ?**

13 A. Dynegy operates power generating facilities in eight states in the Midwest, the
14 Northeast and the West Coast. The company's portfolio consists of nearly 26,000 megawatts of
15 generating facilities that are capable of generating enough electricity to power about 21 million
16 homes nationwide. Dynegy owns a number of coal- and gas-fired generating units in Ohio
17 totaling 5,332 megawatts of net capacity. That total includes Dynegy's proportionate share of
18 the Stuart facility in Aberdeen, Ohio; the Miami Fort facility in North Bend, Ohio; the Zimmer
19 plant in Moscow, Ohio; the Conesville plant in Conesville, Ohio; and the Killen plant in
20 Manchester, Ohio.

The below table summarizes Dynegy's 5,332 megawatts of net capacity located in Ohio by plant, fuel and dispatch type.

Table 1 List of Dynegy Ohio Net Capacity

Plant	Location	Net Capacity (MW)	Primary Fuel	Dispatch Type	Market Region
Stuart	Aberdeen, OH	904	Coal	Baseload	PJM
Miami Fort 7&8	North Bend, OH	653	Coal	Baseload	PJM
Miami Fort (C/T)	North Bend, OH	68	Oil – C/T	Peaking	PJM
Zimmer	Moscow, OH	628	Coal	Baseload	PJM
Conesville	Conesville, OH	312	Coal	Baseload	PJM
Killen	Manchester, OH	204	Coal	Baseload	PJM
Hanging Rock	Ironton, OH	1,296	Gas-CCGT	Intermediate	PJM
Washington	Beverly, OH	648	Gas-CCGT	Intermediate	PJM
Dicks Creek	Monroe, OH	153	Gas-CCGT	Peaking	PJM
Richland	Defiance, OH	447	Gas-CCGT	Peaking	PJM
Stryker	Stryker, OH	19	Oil	Peaking	PJM

As Table 1 indicates, Dynegy operates a significant amount of net capacity in Ohio including both coal-fired and gas-fired generation units. It also maintains baseload, peaking and intermediate units, all in the PJM region. Dynegy is a co-owner, with DP&L, of the Stuart plant, the Zimmer plant, the Miami Fort plants, the Killen plant, and the Conesville plant.

Dynegy also operates at the retail level in Ohio through its wholly-owned subsidiary, Dynegy Energy Services, which has a regional office in Cincinnati, Ohio. With operations in Ohio at both the wholesale and retail level that employ over 400 Ohio workers, Dynegy has a vested interest in promoting and encouraging consumer and business growth in Ohio.

Q. TO WHAT EXTENT DOES DYNEGY CO-OWN GENERATION UNITS WITH DP&L?

A. Dynegy co-owns a number of generation units with DP&L as reflected in the below table.

Table 2 - Co-Owned Generation Units

Plant	Total MW	DP&L Portion MW	Dynegy Portion MW
Stuart Station Units #1-4	2,308	808	904
Zimmer Unit #1	1,320	371	628
Miami Fort Units #7 and #8	1,020	368	68
Killen Unit #2	600	402	204
Conesville Unit #4	780	129	312
Total	6,028	2,078	2,116

Q. DOES DYNEGY COMPETE WITH DP&L?

A. Yes. Even though Dynegy co-owns generation units with DP&L, both companies compete separately in the wholesale energy and capacity markets. The co-owned generation units are commonly referred to as Joint Owned Units (“JOUs”) and are covered by Joint Operating Agreements (“JOAs”). Under the JOAs, the ownership is fractional in nature, where each owns a share of the unit. Each owner offers (bids) its fractional share into the PJM energy and capacity markets, and each owner receives its share of the market revenues.

1 **Q. ARE YOU FAMILIAR WITH DP&L'S DMR PROPOSAL AND HOW IT DIFFERS FROM ITS**
2 **ORIGINAL RIDER PROPOSAL FOR THE ESP III?**

3 A. Yes I am. In February 2016, DP&L proposed a rider called the Reliable Electricity Rider.
4 Under that proposal, DP&L would enter into a power purchase agreement ("PPA") between it
5 and an affiliate, "Ohio Genco," to acquire the generation output of five generating plants for
6 which DP&L is currently a part owner but would soon be transferred to Ohio Genco, as well as
7 DP&L's entitlement of 103 MW of two generating plants owned and operated by the Ohio
8 Valley Electric Corporation ("OVEC"). DP&L would have sold both the generational output of
9 the five plants and the OVEC entitlement into the PJM markets, and would have netted the
10 revenues received from these sales against the costs paid to Ohio Genco. The difference
11 between the costs and revenues would have been credited or charged to DP&L's ratepayers on
12 a non-bypassable basis. The stated purpose of this rider was to promote the reliability of the
13 electric supply and the stability and growth of Ohio's economy.

14 Eight months later, DP&L abandoned the Reliable Electricity Rider (along with the rider's
15 touted promises of improving electric supply reliability and benefiting the state's economy). In
16 its October 2016 amended application, DP&L proposes the DMR. This new rider proposal does
17 not rely on a PPA between DP&L and Ohio Genco, and DP&L will not sell the plants' energy and
18 capacity into the PJM markets. Instead, DP&L asks for \$145 million per year for seven years
19 (the entire term of the ESP III) and claims that without that revenue "both DP&L and its parent
20 DPL Inc. ("DPL") would be unable to maintain their financial integrity." (Amended application at
21 3) In particular, DP&L claims that both DPL Inc. and DP&L would:

- 1 (a) have insufficient cash flows to pay all normal course obligations including, but
2 not limited to operating expenses, principle and interest, pension contributions,
3 tax payments, and planned transmission and distribution capital expenditures;
4 (b) face an immediate downgrade of their current credit ratings to below
5 investment grade level;
6 (c) be unable to pay down debt to appropriately capitalize the business; and
7 (d) be unable to provide a reasonable return to equity holders.

8 (Amended Application at 3) DP&L states that revenues collected from the DMR would be used
9 to (a) pay interest obligations on existing debt at DPL and DP&L; (b) make discretionary debt
10 prepayments at DPL and DP&L; and (c) allow DP&L to make capital expenditures to modernize
11 and/or maintain the Company's transmission and distribution infrastructure. (Amended
12 Application at 3)

13
14 **Q. DOES DYNEGY HAVE ANY CONCERNS WITH DP&L'S DMR PROPOSAL?**

15 A. Yes. In my experience, well-established cost-of-service rate-making principles require a
16 regulatory body to establish rates and charges that enable *the utility* to recover *its own*
17 reasonable costs and investments, and to provide *the utility* with an opportunity to earn a
18 reasonable rate of return on investment. The proposed DMR violates these well-established
19 ratemaking principles. Via the DMR, DP&L is asking its ratepayers to pay for *the parent*
20 *corporation's debt* and also allow *the parent* to make additional discretionary debt
21 repayments. Because it is not truly intended to facilitate the utility's cost-recovery, the DMR
22 proposal runs afoul of established ratemaking principles and is nothing more than a cash

infusion intended to benefit DP&L's parent corporation. In other words, the rider would act as a subsidy for DPL and any generation units that DPL, DP&L or a competitive affiliate own.

Q. DO YOU HAVE OTHER CONCERNS WITH DP&L'S DMR PROPOSAL?

A. Yes, I believe that the DMR will act as an anti-competitive subsidy to DP&L and its parent. As mentioned above, there are three owners of the joint-owned PPA units. The ownership is fractional in nature, where each joint owner owns a share of the unit. Each owner offers (bids) its fractional share into the PJM energy and capacity markets, and each owner receives its share of the market revenues. On the cost side, the operations costs are split amongst each owner in proportion to their fractional ownership share. Should one owner receive an out-of-market subsidy such as revenues from the DMR, it will greatly distort the ownership arrangement and provide that owner with a competitive advantage. For example, if DP&L were to receive approval of the DMR, DP&L would receive guaranteed revenues that could boost its credit ratings and provide to DP&L a cash subsidy that could directly or indirectly benefit DP&L's ability to compete in the wholesale markets against Dynegy. Likewise, because DP&L's affiliate, AES Ohio Generation, holds peaking units that compete in the PJM markets against Dynegy, the DMR would act as a direct or indirect subsidy to DPL's generation affiliate.

Another concern is that DP&L will not act as a rational owner if it is receiving DMR revenues. DP&L's economic decisions regarding these plants may be distorted if it receives an out-of-market subsidy. For example, DP&L may elect to initiate and execute capital projects that may not be warranted economically from a traditional merchant viewpoint. DP&L may also view the variable and marginal cost of their share of the units differently than a traditional

1 merchant operator. As a result, it may choose to commit a unit even if doing so would be
2 uneconomical, and for the co-owned units, it only takes one owner to request a unit to be
3 committed. This concern exists regardless whether the units continue to be owned by DP&L or
4 are transferred to an affiliate.

5
6 **Q. WILL THE DMR BE HARMFUL?**

7 A. Yes, the DMR would be a ratepayer-funded out of market cash infusion for DP&L's
8 parent, DPL. In the first instance, it makes no sense to force ratepayers to pay for the parent
9 company's debts. In the second instance, the other non-utility market participants, including
10 independent power producers such as Dynegy, have no such recourse and granting such relief
11 will amount to the regulator providing financial support for one market participant to the
12 detriment of other market participants. In other words, it would be unfair and anticompetitive
13 for the Public Utilities Commission of Ohio to step in and require the ratepayers to subsidize the
14 utility's parent via the DMR.

15
16 **Q. WHAT IS YOUR RECOMMENDATION AS TO DP&L's DMR PROPOSAL?**

17 A. The Commission should reject the DMR proposal as inconsistent with sound ratemaking
18 principles. If the Commission disagrees and concludes that the DMR is needed for the entity
19 that it regulates (DP&L), then the Commission should require DP&L to divest itself of all
20 generation assets and limit the use of DMR revenue to only within DP&L.

- 1 Q. DOES THIS CONCLUDE YOUR TESTIMONY?
- 2 A. Yes, though I reserve the right to supplement if necessary.

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 on the service list of the docket card who have electronically subscribed to the case. In addition, the undersigned certifies that a courtesy copy of the foregoing document is also being served (via electronic mail) on the 21st day of November 2016 upon all persons/entities listed below:

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Case No(s). 16-0395-EL-SSO, 16-0396-EL-ATA, 16-0397-EL-AAM

Summary: Testimony of Dean Ellis electronically filed by Mr. Michael J. Settineri on behalf of Dynegy Inc.