DYNEGY EXHIBIT NO. __

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Authority to Provide for a Standard Service Offer Pursuant to R.C. 4928.143 in the Form of an Electric Security Plan.	)	Case No. 14-1297-EL-SSO

REHEARING TESTIMONY OF

DEAN ELLIS

VICE PRESIDENT, REGULATORY AFFAIRS, DYNEGY INC.

Filed: June 22, 2016

Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS?

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

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by Dynegy Inc. (“Dynegy”). My title is Vice President, Regulatory Affairs. I am responsible for overseeing the development and advancement of Dynegy’s wholesale and retail regulatory and environmental policy. I also oversee Dynegy’s governmental and legislative affairs activities, and regularly interact with the New York Independent System Operator (“NYISO”), ISO New England (“ISO-NE”), PJM Interconnection, L.L.C. (“PJM”), the Midcontinent Independent System Operator (“MISO”) and the California Independent System Operator (“CAISO”) along with certain state public utility commissions, the Federal Energy Regulatory Commission (“FERC”), the United States Environmental Protection Agency (“US EPA”), and various state legislatures. One of my primary responsibilities is support of Dynegy’s Commercial, Operational and Retail groups in their interactions with the wholesale and retail markets. I am also responsible for working with industry stakeholders on energy and related policy issues.

Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

A. I have a Bachelor of Science Degree in Electric Power Engineering from Rensselaer Polytechnic Institute in Troy, N.Y. Prior to working for Dynegy, I was Manager of Transmission Studies for the New York Independent System Operator (“NYISO”). Prior to that, I held a variety of engineering and construction roles pertaining to electric transmission, power generation and critical facilities. I am a licensed Professional Engineer in New York (inactive).

Q. ARE YOU THE SAME DEAN ELLIS WHO PREVIOUSLY TESTIFIED IN THIS PROCEEDING?

A. Yes, I provided Direct Testimony on December 30, 2015.

Q. WHAT IS THE PURPOSE OF YOUR REHEARING TESTIMONY?

A. This testimony is offered on behalf of Dynegy to respond to the new Rider RRS proposal submitted by Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company (collectively, the "Companies") in their May 2, 2016 Application for Rehearing and as described further in the May 2, 2016 testimony of Eileen Mikkelsen.

Q. CAN YOU PLEASE DESCRIBE DYNEGY'S OPERATIONS IN OHIO?

A. Dynegy is currently the second-largest generation owner in Ohio and could be the largest when AEP divests itself of the Ohio units it is currently marketing. Dynegy owns nearly 5,500 megawatts of net installed capacity in Ohio, including both coal and gas fired generation units. Coal fired generation units make up approximately 2,700 megawatts of the 5,500 megawatts. Approximately 7% of Dynegy's generation is located in the ATSI zone. Dynegy also operates at the retail level in Ohio through its wholly-owned subsidiary, Dynegy Energy Services East, LLC, 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. ARE YOU FAMILIAR WITH THE COMPANIES' NEW RIDER RRS PROPOSAL AND HOW IT DIFFERS FROM THEIR ORIGINAL RIDER RRS PROPOSAL?

A. Yes, I am. The Companies' original Rider RRS proposal called for the Companies to acquire the generation output of two generating plants, Davis-Besse and Sammis, operated by the Companies' affiliate, FirstEnergy Solutions Corp. ("FES"), as well as FES' entitlement to 4.85 percent of two generating plants owned and operated by the Ohio Valley Electric Corporation ("OVEC"), through a power purchase agreement ("PPA") between the Companies and FES. The Companies would have sold the generational output of Davis-Besse, Sammis, and FES' OVEC entitlement (collectively, the "Plants") into the PJM markets, and would have netted the revenues received from these sales against the costs paid to FES, and credited or charged the difference to the Companies' ratepayers on a non-bypassable basis.

The Companies' new Rider RRS proposal purports to no longer rely on a PPA between the Companies and FES, and the Companies will not sell the Plants' energy and capacity into the PJM markets. Instead, according to the Companies, in calculating credits and charges under Rider RRS, actual Plant costs will be replaced with the projected costs from the Plants that are already of record in this proceeding, actual generation output will be replaced with the projected generation output from the Plants, and actual capacity cleared in the PJM capacity market will be replaced with the capacity projected to clear from the Plants. A revenue stream will be created using actual capacity prices and the monthly average on-peak and average off-peak day-ahead daily locational marginal price ("LMP") at the AEP-Dayton Hub. Projected revenues would be used for ancillary services and environmental attributes. The rider will be set annually using forecasted forward energy prices and known capacity prices, and subject to a quarterly true-up to reconcile projected energy revenues with actual energy revenues based on the actual monthly average on-peak and off-peak day ahead locational marginal price for each month of that quarter.

The Companies contend that this new Rider RRS proposal will operate very similarly to the original Rider RRS proposal, and will result in a hedge against retail rate instability for the Companies' ratepayers. The Companies further claim that even though Rider RRS is "not tied to any particular plants", it would "ensure" the continued operation of 3,200 megawatts of fuel diverse baseload generation in the ATSI zone.[1] The Companies state that revenues collected from Rider RRS could be used to fund capital expenditures necessary to modernize the Companies' distribution grid, or to invest in battery resources and/or new Ohio renewable resources.

Q. DOES DYNEGY HAVE ANY CONCERNS ABOUT THE COMPANIES' NEW RIDER RRS PROPOSAL?

A. Yes, the rider is not designed as a reimbursement-mechanism for actual costs incurred in providing electric service to the Companies' ratepayers. Instead, the Companies are simply collecting money from their ratepayers for the sole purpose of benefiting their parent corporation and their deregulated competitive affiliate, FES. In fact, the testimony of Companies' Witness Mikkelsen only notes that the Companies "could" use Rider RRS revenues to fund grid modernization efforts, or to invest in battery and renewable resources, while not

[1] Rehearing testimony of Eileen M. Mikkelsen at 14-15.

precluding the Companies from using these revenues for any other purposes.[2] Like the original Rider RRS proposal, the new Rider RRS proposal is nothing more than a cash infusion meant to benefit the Companies' parent corporation and FES.

The lack of any cost recovery through the rider coupled with the obvious goal of benefiting the Companies' parent corporation and deregulated affiliate also raise concerns about the rider being a subsidy (whether direct or indirect). That is, because the intent of the original PPA proposal was to provide revenue directly to the Companies' deregulated affiliate for certain generating units, it is reasonable to assume that this revenue will be used to benefit those same generating units or other uneconomic units.

Q. IF THE COMMISSION DISAGREES WITH YOUR CONCERNS AND FINDS THAT RIDER RRS IS NEEDED TO ADDRESS RETAIL RATE INSTABILITY, DO YOU HAVE ANY RECOMMENDATIONS TO IMPROVE RIDER RRS?

A. Yes. If the Commission disagrees and concludes that the new Rider RRS is needed as a "hedge" against retail rate instability, one way the Commission could substantially improve upon the Companies' proposal is by opening this "hedge" to competitive procurement.

[2] Rehearing testimony of Eileen M. Mikkelsen at 12.

Q. WHY SHOULD THE COMMISSION REQUIRE THAT ANY HEDGE AGAINST RETAIL RATE INSTABILITY BE OBTAINED THROUGH COMPETITIVE PROCUREMENT?

A. Even if the Commission believes that the Companies' ratepayers want to pay for a "hedge" against retail rate instability, the Companies should not be awarded the substantial revenues expected from Rider RRS charges on an unbid basis. The new Rider RRS proposal is no longer based on variable costs incurred at the Plants. Instead, there are really only two variables, the day-ahead energy pricing (on-peak and off-peak) and actual capacity prices. In other words, what was initially proposed as a rider charge to recover actual costs incurred under a PPA between the Companies and their affiliate, FES, has become a rider charge that relies only on day-ahead energy pricing and actual capacity prices. Therefore, other interested parties, including other market participants as well as financial institutions, could offer to provide this financial transaction to the Companies' ratepayers with identical features as the new Rider RRS proposal, but with a considerably lower risk of charges to ratepayers. For example, an independent power producer like Dynegy could provide a similar construct but use actual costs plus a negotiated return instead of projected costs and actual revenues versus calculated revenues to provide the Companies' claimed "hedge" against retail rate instability. Likewise, a financial institution could offer to provide the underlying transaction for the new Rider RRS proposal but at 90% (or lower) of the projected costs that are in the record. Under that example, ratepayers would see an immediate 10% decrease in the cost of the Rider RRS "hedge." It makes no sense to force ratepayers to pay for the claimed hedge against retail rate instability without seeking bids or proposals to ensure that the hedge is secured at the lowest cost.

Q. WOULD DYNEGY PARTICIPATE IN A COMPETITIVE PROCUREMENT PROCESS TO OBTAIN ALTERNATIVES TO THE COMPANIES' NEW RIDER RRS PROPOSAL?

A. Dynegy is uniquely positioned to participate in any competitive procurement process because it can back any proposal with its Ohio-based generation fleet which employs Ohioans and directly supports Ohio's economy. While Dynegy would require more concrete information before committing to participate in any given competitive procurement process, Dynegy is conceptually interested in competing to be the provider for a "hedge" if the Commission believes that such a hedge is needed to mitigate the risk of retail rate instability. For example, Dynegy could agree to provide the transaction underlying the new Rider RRS proposal but do so at a lower cost projection than the Companies.

Q. WOULD OPENING RIDER RRS TO COMPETITIVE PROCUREMENT IMPAIR ECONOMIC DEVELOPMENT AND TRANSMISSION RELIABILITY IN OHIO?

A. No. The Companies claim that the modified Rider RRS will ensure the continued operation of 3,200 megawatts of base load generation in the ATSI zone, thereby assuring economic development and transmission reliability benefits. But the Companies shy away from outright stating that the viability of this generation actually depends on the implementation of modified Rider RRS. In fact, of the 8,920 megawatts eligible to be included in the minimum 3,200 megawatts that must remain in operation in order for Rider RRS to not be proportionately reduced, 4,362 megawatts are located in Pennsylvania.[3] So as long as at least 3,200 megawatts of generation continue to operate in Pennsylvania, the Companies can continue to charge their

[3] See the Companies' responses to P3/EPSA Set 6 Int-1 and Int-2 and the Companies' responses to Sierra Club Set 13 Int-246.

ratepayers to the fullest extent proposed by Rider RRS, even though under that scenario FES could sell or close all of its units in Ohio. Moreover, economic development and transmission reliability will be assured by other sources of generation in Ohio and in the ATSI zone. As I noted previously, Dynegy owns coal-and-gas-fired generating units in Ohio totaling nearly 5,500 megawatts of net capacity including a facility located in the ATSI zone. Other units are being developed and are under construction in the ATSI zone including the Oregon Clean Energy Center (799 megawatts) and the Lordstown Energy Center (800 megawatts). Therefore, any suggestion that the Companies' modified Rider RRS proposal is necessary for economic development and transmission reliability is not accurate. A competitive procurement process for any sought "hedge" against retail rate instability could be structured to offer substantial benefits to ratepayers over the Companies' new Rider RRS proposal without compromising economic development or transmission reliability.

Q. WHAT IS YOUR RECOMMENDATION AS TO THE COMPANIES' NEW RIDER RRS PROPOSAL?

A. The Commission should reject the Companies' new Rider RRS proposal. If the Commission believes ratepayers require a "hedge" against retail rate instability, the Commission should require that a competitive procurement process be employed to obtain such a hedge, rather than awarding it to the Companies on an unbid basis.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

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 22nd day of June 2016 upon all persons/entities listed below:

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