BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

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

DIRECT TESTIMONY OF JOSEPH E. BOWRING
ON BEHALF OF THE INDEPENDENT MARKET MONITOR FOR PJM

Q **PLEASE STATE YOUR NAME AND POSITION.**

A My name is Joseph E. Bowring. I am the Market Monitor for PJM. I am the President of Monitoring Analytics, LLC. Monitoring Analytics serves as the Independent Market Monitor for PJM, also known as the Market Monitoring Unit. Since March 8, 1999, I have been responsible for all the market monitoring activities of PJM, first as the head of the internal PJM Market Monitoring Unit and, since August 1, 2008, as President of Monitoring Analytics. The market monitoring activities of PJM are defined in the PJM Market Monitoring Plan, Attachment M and Attachment M-Appendix to PJM Open Access Transmission Tariff. I am a Ph.D. economist and have substantial experience in applied energy and regulatory economics. I have taught economics as a member of faculty at Bucknell University and at Villanova University. I have served as a senior staff economist for the New Jersey Board of Public Utilities and as Chief Economist for the New Jersey Department of the Public Advocate's Division of Rate Counsel. I have worked as an independent consulting economist.

Q **WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

A Dayton Power and Light Company (DP&L) is requesting Commission approval of their electric security plan (ESP) for a term of January 1, 2017, through December 31, 2023. DP&L's ESP includes a Distribution Modernization Rider (DMR) that would require customers to pay, via a nonbypassable charge, $145 million per year, or a total of $1.015 billion over the seven year term. DP&L's ESP includes a Reconciliation Rider, initially set at $10.5 million per year, to pay for a shortfall in wholesale power market revenues related to the costs of generation from the Ohio Valley Electric Corporation (OVEC) costs, or a total of $73.5 million over the seven year term, if unchanged. DP&L's ESP includes a Clean Energy Rider that would require customers to pay, via a nonbypassable charge, unquantified environmental compliance costs and decommissioning costs associated with generation owned by DP&L.

The purpose of my testimony is to explain why approval of the DMR, the Reconciliation Rider and the Clean Energy Rider would constitute a subsidy that is inconsistent with competition in the PJM wholesale power market.

Q **PLEASE BRIEFLY SUMMARIZE THE DISTRIBUTION MODERNIZATION RIDER**

A The DMR would require the Ohio distribution customers of DP&L to pay, via a nonbypassable charge, $145 million per year, or a total of $1.015 billion over the proposed seven year term of the ESP, in order, according to DP&L, to maintain the financial integrity of the company. The DMR is intended to offset the factors that threaten the company's financial integrity. At least two of the four key factors cited in DP&L's filing are related to the ownership of generation assets. The filing cites low capacity market prices and low gas prices that reduce the profits of coal fired generation. (Jackson at 7-8.)

Q **PLEASE BRIEFLY SUMMARIZE THE RECONCILIATION RIDER**

A The Reconciliation Rider would require all Ohio distribution customers of DP&L to pay for a shortfall in wholesale power market revenues related to the costs of generation from the Ohio Valley Electric Corporation (OVEC), initially set at $10.5 million per year, or a total of $73.5 million if unchanged over the seven year term of the ESP, but subject to true up to allow recovery of all such current and future costs in the event that the costs were not fully recovered concurrently in distribution charges. The Reconciliation Rider provides for DP&L "to recover the difference between its OVEC expenses and the amounts that DPL received from selling that generation into PJM's day-ahead markets, to the extent that those costs are not recovered through DP&L's Fuel Rider." (DPL Amended Application at 5.)

Q **PLEASE BRIEFLY SUMMARIZE THE CLEAN ENERGY RIDER**

A The Clean Energy Rider would require all Ohio distribution customers of DP&L to pay, via a nonbypassable charge, unquantified environmental compliance costs and decommissioning costs associated with generation owned by DP&L. These costs would be subject to after the fact true up to allow recovery of all such current and future costs in the event that the costs were not fully recovered concurrently in distribution charges.

Q **WHAT IS THE CORPORATE STRUCTURE INCLUDING DP&L, DPL AND AES?**

A DP&L is a public utility and the principal subsidiary of DPL, an energy holding company. DPL is a wholly owned subsidiary of AES, an international diversified power generation and utility company. DP&L has an ownership stake in six coal fired generating plants and a number of combustion turbines and diesel plants. DPL also owns additional generation via its subsidiary, AES Ohio Generation. (Malinak at 22–23)

None of the DP&L generating units are subject to regulation by the Ohio Public Utility Commission. The energy and capacity associated with the generating units are sold in the PJM competitive wholesale power markets. The profits and losses from the generating units belong to the shareholders and not the Ohio distribution customers.

Q **IS THE PROPOSED ESP CONSISTENT WITH COMPETITION IN THE PJM WHOLESALE POWER MARKET?**

No. The proposed ESP is not consistent with competition in the PJM wholesale power market. The elements of the ESP associated with the ownership of wholesale market generation, including the DMR, the Reconciliation Rider and the Clean Energy Rider, would constitute a subsidy to DPL generation. The proposed ESP would shift responsibility for costs associated with DP&L's generation assets from the shareholders to the distribution customers of the company. DP&L is requesting that all Ohio distribution customers of DP&L be required to pay for costs associated with the generation assets owned by DP&L. In addition, DP&L's position is that customers should not receive a credit under the DMR even if the company experiences significantly excessive earnings under the Ohio SEET test that result in part from the DMR.

Under the proposed ESP, DP&L would offer the energy and capacity from the OVEC generation assets into the PJM markets. The proposed ESP would credit the market revenues against the costs and charge the net costs to the ratepayers of DP&L. This would provide an incentive to DP&L to offer the OVEC resources at less than a competitive level.

Under the proposed ESP, DP&L would charge unquantified environmental compliance costs and decommissioning costs associated with generation owned by DP&L without any apparent offset. This would provide DP&L an incentive to offer the capacity of these units into the PJM capacity market at less than a competitive level.

This type of subsidy is inconsistent with competition in the wholesale power markets because of its price suppressive effects. With a guaranteed revenue stream of more than $145 million dollars per year and insulation from environmental risks, DP&L would not need to recover it costs through wholesale markets as its unsubsidized competitors do. DP&L would have an incentive to continue to offer noneconomic resources into the PJM markets in a way that its unsubsidized competitors cannot.

Such effects would make it more difficult for generating units without subsidies to compete in the market. Competition depends on units making competitive offers that reflect their costs and on recovering revenues only from the markets and not from subsidies. Such subsidies would negatively affect the incentives to build new generation and would likely result in a situation where only subsidized units would ever be built.

Q **HOW DOES COMPETITION IN THE PJM WHOLESALE POWER MARKET WORK?**

A It is essential that any approach to the PJM markets and the PJM capacity market incorporate a consistent view of how the preferred market design is expected to work to provide competitive results in a sustainable market design over the long run. A sustainable market design means a market design that results in appropriate incentives to retire units and to invest in new units over time such that reliability is ensured as a result of the functioning of the market. There are at least two broad paradigms that could result in such an outcome. The market paradigm includes a full set of markets, most importantly the energy market and capacity market, which together ensure that there are adequate revenues to incent new generation when it is needed and to incent retirement of units when appropriate. This approach will result in long term reliability at the lowest possible cost.

The quasi-market paradigm includes an energy market based on LMP but addresses the need for investment incentives via the long-term contract model or the cost of service model. In the quasi-market paradigm, competition to build capacity is limited and does not include the entire PJM footprint. In the quasi-market paradigm, customers absorb the risks associated with investment in and ownership of generation assets through guaranteed payments under either guaranteed long term contracts or the cost of service approach. In the quasi-market paradigm there is no market clearing pricing to incent investment in existing units or new units. In the quasi-market paradigm there is no incentive for entities without cost of service treatment to enter and thus competition is effectively eliminated.

I believe that the market paradigm is the preferred alternative and that DP&L's proposal is not consistent with the market paradigm. Whatever the decision, it is essential at a minimum that the choices about incentives and regulatory approaches be made with an explicit understanding of the short run and long run implications of these choices for the design of wholesale power markets and the interaction between wholesale power markets and retail markets.

Q **PLEASE SUMMARIZE YOUR RECOMMENDATION.**

A Approval of the Distribution Modernization Rider, the Reconciliation Rider and the Clean Energy Rider would constitute a subsidy which is inconsistent with competition in the PJM wholesale power markets. Accordingly, the riders should be rejected for that reason.

Q **DOES THIS COMPLETE YOUR DIRECT TESTIMONY?**

A Yes.

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing Direct Testimony of Joseph E. Bowring on Behalf of Monitoring Analytics, LLC, was served via electronic transmission to the persons listed below on this 21st day of November, 2016.

/s/Jeffrey W. Mayes
Jeffrey. W. Mayes
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