BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Review of the Reconciliation Rider of Duke Energy Ohio, Inc.	)))	Case No. 20-167-EL-RDR

REPLY COMMENTS OF DUKE ENERGY OHIO, INC.

I. INTRODUCTION

Comes now Duke Energy Ohio, Inc., (Duke Energy Ohio or Company) and respectfully submits its reply comments to the Initial Comments By The Office of the Ohio Consumers' Counsel (OCC Comments) in these proceedings.

These proceedings were initiated pursuant to the February 13, 2020, Entry of the Public Utilities Commission of Ohio (Commission) that, among other things, commenced the prudency and performance audit of the Price Stabilization Rider (Rider PSR) of Duke Energy Ohio through December 31, 2019 (February Entry).[1]

Duke Energy Ohio is authorized, through Rider PSR, to provide customers the net benefit of all revenues accruing to the Company as a result of its ownership and interest and contractual entitlement in the Ohio Valley Electric Corporation (OVEC). Rider PSR was most recently approved as part of Duke Energy Ohio's Fourth and current Electric Security Plan (ESP IV) in consolidated Case Nos. 17-1263-EL-SSO *et al.*[2]

[1] *In the Matter of the Review of the Reconciliation Rider of Duke Energy Ohio, Inc.*, Case No. 20-167-EL-RDR, Entry, (Feb. 13, 2020).
[2] *In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Electric Distribution Rates, Case Nos. 17-32-EL-AIR, et al.*, Opinion and Order, pp. 45-47 (December 19, 2018) (ESP IV Order).

In ESP IV, the Commission authorized Duke Energy Ohio to recover or credit the net proceeds of selling OVEC energy and capacity into the PJM Interconnection, LLC (PJM) marketplace via the Rider PSR mechanism.[3] Rider PSR is subject to quarterly filings, that started with the first billing cycle of April 2019. Additionally, the Commission provided for an annual audit to establish the prudency of all costs and sales flowing through the PSR and to demonstrate that the Company made reasonable efforts to transfer its entitlement under the Inter-Company Power Agreement (ICPA), which governs the relationship among co-owners of OVEC.[4] Per the ICPA, Duke Energy Ohio is entitled to a share of OVEC's electricity generation, and must also pay that same share of OVEC's costs.

Through its February Entry, the Commission directed the Commission's Staff (Staff) to issue a Request for Proposal (RFP) to audit Duke Energy Ohio's Rider PSR for the twelve-month period ending December 31, 2019. By Entry dated April 8, 2020, London Economics International LLC (LEI) was selected as the auditor (April Entry). On October 21, 2020, LEI filed its "Audit of the Price Stabilization Rider of Duke Energy Ohio Final Report," (Audit Report).[5] By Entry dated November 25, 2020[6] the Commission, established a procedural schedule for intervention,[7] comments[8] and reply comments.[9]

The Office of the Ohio Consumers' Counsel (OCC) is the only intervening party to file comments by the Commission-established deadline.[10] As further explained below, the Commission should disregard the OCC's Comments. OCC's Comments misinterpret the Audit

[3] ESP IV Order at 45.
[4] Id., pp. 46-47.
[5] *In the Matter of the Review of the Reconciliation Rider of Duke Energy Ohio, Inc.*, Case No. 20-167-EL-RDR, Audit of the Price Stabilization Rider of Duke Energy Ohio Final Report, (Oct. 21, 2020).
[6] Id. Entry (November 25, 2020).
[7] December 18, 2020.
[8] Id.
[9] January 8, 2020.
[10] OCC Comments (December 18, 2020).

Report which results in misstatements of facts and inaccurate and unsupportable conclusions regarding the capacity and energy revenues allocated to the Company. OCC further misunderstands the operation of the ICPA and Duke Energy Ohio's participation thereunder, as well as, OVEC's commitment strategy in PJM.

II. DISCUSSION

A. THE LEI AUDIT REPORT CONFIRMS THAT DUKE ENERGY OHIO'S ACTIONS WITH RESPECT TO OVEC HAVE BEEN PRUDENT AND DOES NOT RECOMMEND ANY DISALLOWANCES.

The LEI Audit Report confirms that Duke Energy Ohio has prudently managed its participation in OVEC and management of its entitlements. LEI confirmed that Duke Energy Ohio is actively engaged in its management of its entitlement and that the Company's processes, procedures and oversight were mostly adequate and consistent with good utility practice.[11] LEI found the Company's Rider PSR true-up process was timely and accurate.[12] Also, LEI found that the Company's strategy of creating a process for OVEC to continually evaluate its commitment/offer strategy as between Must-Run and Economic commitment offers, as well as to utilize near-term demand and price forecasts to formulate energy offers, was prudent.[13] Moreover, LEI determined the Company's capacity offers were formulated prudently.[14] With respect to OVEC itself, LEI found that OVEC complied with environmental requirements and that its management of emissions allowance inventories was reasonable and prudent[15] that OVEC's coal solicitation evaluations were prudent,[16] and that OVEC was able to secure competitive transportation costs to ship coal to its two plants.[17] Further, LEI concluded that OVEC's capital

[11] LEI Audit Report at 9.
[12] Id.
[13] LEI Audit Report at 10.
[14] Id.
[15] Id.
[16] Id. at 60.
[17] Id. at 68.

projects were generally completed within budgets and the projects selected for further examination were planned and completed on a prudent basis.[18]

B. OCC SEEKS TO UNREASONABLY EXPAND THE COMPANY'S BURDEN OF PROOF IN THESE PROCEEDINGS.

OCC argues that the Company has the burden of proof and that it must "show that all actions related to the OVEC plants were prudent and in consumers' best interests."[19] While the Company maintains the burden of proof in these proceedings, OCC unreasonably seeks to expand this burden to encompass matters far beyond the scope of this audit and the Company's level of control with respect to OVEC.

As this Commission is well aware, OVEC is a separate corporation and Duke Energy Ohio is one of many co-sponsoring companies under the ICPA (Sponsoring Companies) in the OVEC corporation, having a 9 percent interest. Duke Energy Ohio is entitled to 9 percent of OVEC's energy and capacity and is responsible for the same share of its costs. No more, no less. Duke Energy Ohio does not operate OVEC, and its personnel do not participate in OVEC's day-to-day operational decisions. At best, Duke Energy Ohio has only a 9 percent "vote" in matters that are brought to the attention of the OVEC board of directors and the OVEC operating committee. Therefore, the Company's influence in "all actions" is limited to its 9 percent interest, and the Company should not be evaluated and face a burden of proof over actions over which it has little or no control (*e.g.*, day-to day operations, fuel contracts, inventory targets, *etc*.).

Nonetheless, the LEI Audit Report confirms that Duke Energy Ohio is actively engaged in the management of its entitlement, actively participates in various committees, and continually makes recommendations to the OVEC personnel who are responsible for day-to-day decisions that

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[18] Id. at 92-93.
[19] OCC Comments at 3.

are aimed at increasing the value of OVEC to customers. LEI reviewed the Company's processes, procedures, and its oversight and found they were consistent with good utility practice.[20]

C. DUKE ENERGY OHIO DID NOT PURCHASE FIRST ENERGY'S OVEC SHARE.

1. OCC's allegation that the Company purchased additional shares of OVEC is incorrect.

In its first "Consumer Protection Recommendation" OCC *incorrectly* alleges that Duke Energy Ohio "unilaterally chose" to take on more of the OVEC liability, that it purchased FirstEnergy Solution's (FES) share of the OVEC output and that other Sponsoring Companies, (e.g. AEP) refused to do so.[21] Unfortunately, OCC has jumped to the wrong conclusion and has misinterpreted the events described by the Audit Report.

Duke Energy Ohio *did not* purchase any additional interests in OVEC. Duke Energy Ohio maintains its 9 percent power participation ratio (PPR), the same ratio it has always possessed since the inception of the ICPA. In fact, Duke Energy Ohio objected to any reallocation of FES's interest and corresponding demand charges and argued that FES could not reject its share of the ICPA. A permanent acquisition of additional interests, such as the alleged purchase, would likely require a renegotiation, or at least a restatement, of the ICPA, which never occurred. Moreover, PJM allocations would be required to be permanently amended. Again, none of that occurred. What the LEI Audit Report describes, albeit somewhat unclearly, are the temporary reallocation actions OVEC was forced to take for the FES-rejected energy and capacity output that was sold into the market (i.e. revenues) while the FES bankruptcy issues were litigated. OVEC reallocated the FES-related net energy revenues to *all* remaining Sponsoring Companies and the capacity revenues (not the fixed/demand costs) to the PJM Sponsoring Companies during the FES

[20] LEI Audit Report at 9.
[21] OCC Comments at 4-5.

bankruptcy dispute period. At no time was there a purchase or assumption of any additional fixed costs/demand charges associated with incremental ownership stake in OVEC by Duke Energy Ohio. And OVEC's actions actually resulted in net benefits to customers, not charges.

2. FES relinquished its right to OVEC energy and capacity revenues during bankruptcy and *all* remaining ICPA participants were allocated a portion of those revenues.

Following FES's (n/k/a Energy Harbor (EH)) bankruptcy filing, FES defaulted on its obligations under the ICPA and did not pay its share of demand and energy charges from the onset of the bankruptcy. FES sought to reject its obligations under the ICPA and OVEC made a claim for certain administrative costs and objected to the rejection citing the filed rate doctrine and FERC's exclusive jurisdiction. Duke Energy Ohio joined in that objection. Due to the restrictions under applicable bankruptcy laws, OVEC was not able to exercise remedies against FES until the court authorized FES' rejection of its share of the ICPA, subject to OVEC's claims for damages and its continued appeal of the rejection order. Ultimately, as a result of a settlement between EH and OVEC, as approved by the bankruptcy court, EH finally agreed to assume the FES obligations under the ICPA effective June 1, 2020.

As a consequence of its attempts to reject its ICPA participation in bankruptcy and defaulting on paying its costs, FES also no longer received any of the revenues associated with its share of energy and capacity of the OVEC units. Under the terms of the order and in accordance with the ICPA, OVEC (in coordination with PJM and the remaining PJM Sponsoring Companies), then allocated FES's abrogated energy and capacity rights to *all* of the other Sponsoring Companies. The result was that all other Sponsoring Companies received an allocation of the FES energy and the PJM Sponsoring Companies received an allocation of the capacity revenues in proportion to each individual Sponsoring Company's respective PPR between September 1, 2018 through May 31, 2020 (Allocation Period). The Sponsoring Companies, however, *were not* required to pay, nor did they pay, any additional demand charges (fixed costs) attributable to the FES capacity allocation. The Sponsoring Companies paid only the variable energy charges for the allocation of additional energy that was generated and sold into the market. Indeed, Duke Energy Ohio objected to any attempt at a reallocation of the demand/fixed costs.

As a result, Duke Energy Ohio received 9 percent of FES's 4.85 percent of the total OVEC capacity value (*i.e.* revenue*)* in PJM for the Allocation Period while FES's ICPA participation was litigated. And, Duke Energy Ohio (like all other ICPA PJM participants), received the net revenues for the additional energy sold to PJM, paying the incremental portion of *variable energy* costs necessary to produce the additional allocation of energy. Put another way, neither Duke Energy Ohio, nor ultimately, its customers, were allocated any additional fixed costs/demand charges associated with the FES share of OVEC capacity. The additional capacity allocation was at no additional cost from OVEC. These incremental net energy revenues and additional capacity revenues resulted in a net *credit* to Duke Energy Ohio's customers of $700,033.00 for the 2019 calendar year, and approximately $1.1 million in total for the Allocation Period. As explained below, this net credit was reflected in the Company's November 2020 Legacy Generation Rider (Rider LGR) update filing for rates effective January 1, 2021.[22]

3. OVEC's allocation of the FES Energy and Capacity revenues to all remaining ICPA participants was necessary and reasonable.

OVEC's reallocation of FES's capacity and energy to *all* remaining PJM Sponsoring Companies was both necessary and reasonable. Moreover, this additional allocation actually produced *net revenues, not costs*, as OCC incorrectly concludes.

[22] Rider LGR was created as a result of the enactment of R.C. 4928.148 and replaced Rider PSR effective January 1, 2020.

Under the terms of the ICPA, Sponsoring Companies pay for the variable costs of energy that they are allocated. However, the fixed/demand costs for each Sponsoring Company remain in proportion to each respective Sponsoring Company's PPR. With respect to FES's share of the fixed/demand charges, unlike the energy portion, the ICPA does not provide an automatic process for, and the remaining Sponsoring Companies, including Duke Energy Ohio, opposed, any automatic reallocation of the fixed/demand charges attributable to FES's portion. As a result, OVEC itself covered those costs via its available cash on hand while the bankruptcy proceeding was pending and during the Allocation Period. The remaining Sponsoring Companies were only allocated the incremental capacity and energy. The value of this additional zero-cost capacity provided to the remaining PJM Sponsoring Companies was monetized in PJM and Duke Energy Ohio is crediting these revenues to its customers as part of the true-up for the July-December 2020 period. None of these costs, or revenues were included in Rider PSR charges during 2019.

There was no alternative for OVEC to avoid the incremental energy charges or to avoid the incremental energy revenues. The OVEC units did not magically convert from 200 MegaWatts (MW) units to something lesser simply because FES was rejecting its obligations through bankruptcy. Likewise, the only way for the Sponsoring Companies to avert receiving an incremental allocation of the energy output from FES's abandonment in bankruptcy would have been for OVEC to reduce the capability of its units by approximately 10 MW in proportion to FES's 4.85 percent share. Ignoring the fact that such action would have likely violated PJM's tariffs because it would be withholding energy from the market, PJM would have still dispatched the unit up to its full capability when economic to do so. The resulting additional energy sales would still have been credited to the OVEC account, where they then would have promptly been divided among all the PJM ICPA Sponsoring Companies' member shares.

4. Duke Energy Ohio did not include the FES Allocation Costs or Revenues in Rider PSR in 2019.

Because of the pending bankruptcy of FES, and concerns related to the final disposition of the FES bankruptcy proceeding, Duke Energy Ohio *did not* include any portion of the allocated variable energy *costs or the energy and capacity revenues* in Rider PSR during 2019. Rather, Duke Energy Ohio accounted for the incremental share of this additional allocation of energy and capacity separately and held it in reserve during 2019 and beyond until the bankruptcy situation was resolved. Duke Energy Ohio was uncertain how the bankruptcy proceeding would be resolved and believed it was prudent to maintain separation of these costs and revenues until the bankruptcy proceeding was resolved and the Company knew there would be no risk associated with accepting the incremental revenues and passing them to customers. Even though Duke Energy Ohio was billed by OVEC and PJM for this additional allocation, customers were neither charged nor credited for any portion of the FES allocation in 2019. It was only following resolution of the bankruptcy proceeding and settlement between OVEC and EH, and when Duke Energy Ohio was assured that there would be no further allocations that the Company then credited customers with 100 percent of the net revenues from the additional allocation. That credit was reflected in the Company's Rider LGR update filing made in November 2020 and contains the true-up for the July-December 2020 period for rates effective January 1, 2021,.

LEI's Figure 8, on page 26 of the LEI Audit Report is merely a revenue reconciliation of the Rider PSR customer billings to *all* OVEC charges and revenues during 2019. Column I is relevant for purposes of the Rider PSR charges during 2019 because it reflects what was actually included in the Rider. The rest is simply LEI's proof or verification that the charges reconciled with accounting records.

Figure 8. Reconciliation of journal entries and rider charge

	Actual			Estimated			Totals			
Accounting month	A Total OVEC charges (net of capacity trades)	B PJM settlements	C Total actuals (A+B)	D OVEC charges	E PJM Settlements	F Total estimated (D+E)	G FES transactions	H Grand total (C+F+G)	I PSR total charge	J Reconciliation
January 2019	$0.00	$2,744,279.94	$2,744,279.94	($3,411,447.10)	$995,196.78	($2,416,250.32)	($220,553.51)	$107,476.11	($107,476.11)	$0.00
February 2019	($10,320,369.17)	$4,216,480.64	($6,103,888.53)	$4,604,084.42	($1,296,246.55)	$3,307,837.87	$52,760.34	($2,743,290.32)	$2,743,290.32	$0.00
March 2019	($4,324,960.07)	$3,206,011.62	($1,118,948.45)	($689,289.52)	$323,059.46	($366,230.06)	($52,488.63)	($1,537,667.14)	$1,537,667.14	$0.00
April 2019	($4,994,505.06)	$2,369,051.15	($2,625,453.91)	$786,364.18	($534,966.49)	$251,397.69	($70,413.50)	($2,444,469.72)	$2,444,469.72	$0.00
May 2019	($4,433,279.44)	$2,101,542.52	($2,331,736.92)	($619,124.27)	$241,141.53	($377,982.74)	($41,810.27)	($2,751,529.93)	$2,751,529.93	$0.00
June 2019	($4,904,341.98)	$2,183,541.84	($2,720,800.14)	$667,655.78	$129,378.81	$797,034.59	($39,510.91)	($1,963,276.46)	$1,963,276.46	$0.00
July 2019	($4,411,328.35)	$3,639,067.19	($772,261.16)	($1,170,977.10)	($407,645.08)	($1,578,622.18)	($37,382.61)	($2,388,265.95)	$2,388,265.95	$0.00
August 2019	($4,920,542.86)	$2,661,459.18	($2,259,083.68)	$419,767.64	$56,162.28	$475,929.92	($64,117.00)	($1,847,270.76)	$1,847,270.76	$0.00
September 2019	($4,872,876.61)	$2,267,498.76	($2,605,377.85)	$238,629.11	$355,885.57	$594,514.68	($44,163.02)	($2,055,026.19)	$2,055,026.19	$0.00
October 2019	($4,683,452.00)	$2,979,702.20	($1,703,749.80)	($615,397.78)	($214,038.20)	($829,435.98)	($56,157.14)	($2,589,342.92)	$2,589,342.92	$0.00
November 2019	($5,007,087.34)	$3,318,127.97	($1,688,959.37)	$337,699.15	$67,842.25	$405,541.40	($52,337.75)	($1,335,755.72)	$1,335,755.72	$0.00
December 2019	($4,587,124.80)	$2,453,357.72	($2,133,767.08)	($1,071,831.30)	$192,732.91	($879,098.39)	($73,859.00)	($3,086,724.47)	$3,086,724.47	$0.00
Total	($57,459,867.68)	$34,140,120.73	($23,319,746.95)	($523,866.79)	($91,496.73)	($615,363.52)	($700,033.00)	($24,635,143.47)	$24,635,143.47	$0.00

Source: LEI-DR 06-008 Attachment 1 and LEI DR-06-009 Attachment 1, tab "acct mo total"

LEI's goal was to validate the Company's Rider PSR calculations, and to do so, LEI used the Company's accounting records and invoices received from OVEC and PJM. Those invoices from OVEC and PJM included the net charges/credits related to OVEC that contained Duke Energy Ohio's PPR share as well as its additional allocation of the FES OVEC interest. However, those net charges/credits of both OVEC portions are not what was actually charged to customers during 2019 through Rider PSR.

As previously stated, Columns A, B, D, and E in Figure 8 reflect the combined OVEC allocation (Duke Energy Ohio PPR and FES allocation, hereinafter "Reallocation") of costs/revenues to Duke Energy Ohio. Specifically, Column A depicts the total monthly OVEC charges during the 2019 portion of the Allocation Period, net of the capacity trades to OVEC as described on page 25 of the LEI Audit Report. Likewise, Column B includes the PJM Settlements for the total OVEC Reallocation. The sum of those two columns, including the FES portion of net revenues, is reflected in Column C, for a total charge of $23,319,746.95 (negative number) in 2019.

Columns D and E represent the monthly reconciliation in the Company's accounting system between journal entries for the prior month and the current month. Duke Energy Ohio receives a delayed bill from OVEC such that each month it is billed for the prior period. However, per accounting protocols, each month, the Company must also estimate its charges for the current month as well. Columns D and E comprise that monthly reconciliation or “estimates” for OVEC charges and PJM settlements, respectively. The sum of the two is depicted in Colum F for a total charge of $615,363.52 (negative number) for calendar year 2019. Again, these estimates included the entirety of the OVEC Reallocation during this period.

The sum of Column C and Column F, ($23,319,746.95 plus $615,363.52) thus reflects the total OVEC net costs of $23,935,110.40, if one includes the net revenues associated with the FES portion of the OVEC Reallocation. However, this is not what was ultimately charged to customers during 2019, because the Company withheld both the costs and revenues associated with the incremental FES OVEC allocation from Rider PSR during the Allocation Period even though it was invoiced for both. The difference between the actual charges in Rider PSR (Column I) and the net revenues of the FES portion of OVEC is what is reflected in Column G. To reconcile the actual Rider PSR charges during 2019 (reflected as a positive $24,635,143.47 in Column I) to the accounting records, LEI had to remove (add back in as a negative figure) the net revenues as depicted in Column G because those revenues were already reflected in Columns A, B, C, D, E and F. That is why Column G is depicted as a negative number.[23] The confusion is further exacerbated because the monthly Rider PSR charges in Column I are depicted as positive numbers, when they are actually charges, not credits, for most of 2019. As a result, what OCC has interpreted as a cost to customers actually reflects the net revenues (credits in excess of costs) related to the FES portion of OVEC that was reallocated and that were held for future distribution once the bankruptcy proceeding was resolved.

[23] $24,635,143.47-700,033.00=$23,319,746.95

The total amount of revenue during 2019 solely from this additional allocation of OVEC energy and capacity was $2,105,806. The additional amount of energy-related costs during 2019 from this additional OVEC allocation was $1,405,774. The impact of these credits (energy and capacity) was an *increase* to the overall *benefit* (*i.e. reduction of the OVEC related charges)* by $700,033.00 for the 2019 calendar year portion of the Allocation Period. It reflects a credit, not an incremental charge as OCC incorrectly claims.[24] Assuming OVEC could somehow have avoided reallocating these revenues to the Sponsoring Companies, or that the Sponsoring Companies could have refused such an allocation, Duke Energy Ohio's customers would have ultimately been charged $700,033.00 *more*, not less..

Customers are receiving 100 percent of this benefit for the entire Allocation Period through a one-time adjustment contained in the November 2020 Rider LGR update filing for rates effective January 1, 2021, which includes the true-up for the July through December 2020 period. That Rider LGR update filing includes a net credit of $1,082,907.26 for the entire Allocation Period. This net credit reconciled all costs and revenues attributable to the FES allocation of OVEC at issue due to bankruptcy for the entire Allocation Period.

Duke Energy Ohio did not pay for, and was not charged for, the FES share of demand charges. Duke Energy Ohio did not "double down" on OVEC ownership as OCC incorrectly concludes, but rather opposed any reallocation of demand costs.[25] The Company only received an allocation of the capacity revenues attributed to FES's share until the bankruptcy dispute was settled, as did *all other* remaining ICPA PJM Sponsoring Companies. The result of this additional allocation was a benefit to customers, not a cost, as OCC alleges.[26] Indeed, the LEI Audit Report

[24] OCC Comments at 4. Incorrectly arguing that the 2019 OVEC costs increased by $700,033. It was actually a credit/reduction of $700,033.
[25] OCC Comments at 4.
[26] Id.

itself acknowledges that the Rider PSR charges are consistent with OVEC bills and offsetting earnings as they should be, and the transactions (Column G) in Figure 8 of the Audit Report related to the FES entitlement are added, though the Audit Report notes that "charges appear as credits, and vice versa."[27] Had Duke Energy Ohio not received this additional allocation of energy and capacity, costs to customers would be higher. Duke Energy Ohio accounted for those incremental costs and revenues separately and did not reflect them in Rider PSR in 2019. It was only after the bankruptcy proceeding was resolved, the Company was confident that no further costs were allocated, and net revenues could be distributed, that customers saw any impact of this additional OVEC allocation. Accordingly, the Company's (and OVEC's) actions were prudent and reasonable. The Commission should not disallow costs where the Company's actions actually produced a net benefit and reduced costs to customers.

5. OVEC's allocation of the FES energy and capacity revenues was temporary and the dispute was resolved in customers' favor.

Ultimately, OVEC and FES were able to settle their outstanding claims and appeals in full through a settlement agreement approved by the Bankruptcy Court. Under this settlement, EH assumed the FES share of the ICPA (effective as of June 1, 2020), and FES paid an agreed lump sum amount of $32.5 million to OVEC to settle claims for nonpayment of entitlement costs for all prior periods, including the period from September 1, 2018 through May 31, 2020, as well as prior periods.[28] This settlement was favorable to OVEC, the Sponsoring Companies, and ultimately customers, since it avoided ongoing litigation over OVEC's claim for the rejection of the FES share of the ICPA, which may have resulted in significant, additional, unrecoverable amounts to

[27] LEI Audit Report at 25. The Audit Report acknowledges that its reporting of the charges/credits in Figure 8 have switched signs.
[28] *See: In Re Pleasants Corp., et al*, Case No 18-50757 Bankr., N.D. Ohio, Eastern Division Reorganized Debtors' Motion to Approve Stipulation Between Energy Harbor LLC and Ohio Valley Electric Corporation Regarding Certain Energy Contracts and Related Claims (May 18, 2020). Available at: https://cases.primeclerk.com/FES/Home-DocketInfo?DocAttribute=3744&DocAttrName=PLANDISCLOSURESTATEMENT

OVEC (including for debt and other obligations properly chargeable through the ICPA to all Sponsoring Companies on a pro-rata basis).

Once this settlement was achieved and authorized and Duke Energy Ohio was certain that there would be no additional allocations by OVEC, the Company included the net revenues as a credit to customers in its November 2020 Rider LGR update filing as previously discussed.

D. A COMMITMENT STRATEGY BASED SOLELY UPON AN ECONOMIC DESIGNATION IS NOT IN CUSTOMERS' BEST INTERESTS

1. OCC's Allegation That OVEC Acted Imprudently By Committing Plants As Must-Run Demonstrates OCC's Confusion Regarding Generation Unit Commitment In PJM.

OCC's Comments confuse the concepts of unit commitment and dispatch in PJM. OCC also fails to appropriately consider the OVEC units' configuration and ignores the physical realities of managing coal-fired generating units or operating such generating units in an regional transmission organization (RTO) environment like PJM. Further, OCC is attempting to engage in a hindsight review of the commitment decisions of OVEC and impute responsibility for those decisions to Duke Energy Ohio. The Commission should not permit this to occur. Commitment decisions should be based upon, and any prudency review should encompass, information known at the time decisions were made, and without hindsight judgement. OCC is attempting to employ hindsight judgment in its recommendation to disallow costs because OVEC did not commit its units using a commitment status offer of "Economic."

To respond to OCC's Comments, it is first important to explain the differences between unit commitment, dispatch, and economic dispatch. OCC seems to confuse these terms, or at a minimum appears to incorrectly use the terms interchangeably. This leads to confusion and inaccuracy. Unit commitment refers to the process or determination of deciding to run (commit) or not run a generating unit. The term economic dispatch determines the amount of output from each on-line generating resource supplying electricity, generally using the most cost-efficient resources available. The dispatch of a unit describes the movement of a generating unit usually between the unit's minimum and maximum capability. Both commitment and dispatch of units are subject to any operational limits and environmental considerations affecting the generation unit as well as those of transmission facilities available to supply that electricity.

PJM allows for four different commitment status offers: Not Available or Outage, Emergency, Economic (pool-scheduled), and Must-Run (self-scheduled).[29] For units that are offered with an Economic commitment status, the decision to turn on or continue running this unit is made by PJM. This is also referred to as "pool-scheduled" in PJM.[30] For units that are offered with a Must-Run commitment status, the decision to turn on or continue running the unit is made by the owner. Must-Run is also referred to as "self-commitment" or "self-scheduled" in PJM.[31]

As a clear example of OCC's confusion, when discussing the midcontinent independent system operator (MISO) independent market monitor's (IMM's) review of coal plant commitment, OCC claims that "[t]he report noted that most utilities operate their plants in an economic manner"[32] and that "the report concluded, however, that there were three utilities, like OVEC, with coal plants that had negative net operating revenues in 2019."[33] Both of these statements are incorrect and demonstrate OCC's conflation of concepts.

First, OCC's statement regarding plant operation in an "economic manner" doesn't mean that most utilities use a commitment status offer of "Economic." Rather, this statement means that utilities are performing the function of commitment, *i.e.*, deciding between use of either a "Must Run" or "Economic" commitment status, correctly and in an efficient or "economic manner."

[29] PJM Manual 11. Available at: https://www.pjm.com/~/media/documents/manuals/m11.ashx
[30] Id. at 44.
[31] Id. at 27.
[32] OCC Comments at 7.
[33] Id.

OCC is confusing a commitment status *offer* of "Economic" (capitalized) with offering a unit in an economic manner, which may include a commitment status offer of either Economic or Must-Run for an available unit. In reality, in the MISO energy market, similar to in PJM, approximately half of all coal-fired generating units are actually offered with a commitment status of Must-Run.[34] The MISO IMM report referenced by OCC actually discusses that even though many of the coal-fired generating units in MISO are offered with a commitment status of Must-Run, the vast majority (90 percent) were profitable and thus are being offered in an economic manner.[35] The MISO IMM confirms that the majority of coal unit commitments between 2016-2019 (starts) were a Must-Run designation.[36] Note the difference here in the capitalized term "Economic commitment" (*i.e*. the status of a unit's offer, or in PJM language a pool commitment) and performing a function in an economic manner.

In fact, a review of multiple reports from both PJM and the PJM IMM, Monitoring Analytics LLC, show over half of coal and nuclear units in PJM are actually self-scheduled (*i.e.* offered with a commitment status of Must-Run). For example, the PJM response to the 2017 IMM State of the Market Report states that "…on average, more than two-thirds of units are regularly ***self-scheduled***. Even excluding nuclear power plants, more than 60 percent of generating units are regularly ***self-scheduled*** in all hours, accounting for more than 30 percent of the output in the energy market."[37] Additionally, as stated in the 2018 State of the Market Report by the PJM Market Monitor, "Thus, the majority of generation in both the day-ahead and real-time markets is

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[34] *See* A Review of the Commitment and Dispatch of Coal Generators in MISO by Potomac Economics pg. 3 showing coal unit commitments 2016-2019. Available at: www.potomaceconomics.com/wp-content/uploads/2020/09/Coal-Dispatch-Study_9-30-20.pdf Last visited January 7, 2021.
[35] Id, *at 4.*
[36] Id. *at 5.*
[37] Available at: https://www.pjm.com/-/media/library/reports-notices/state-of-the-market/20180511-pjms-response-to-the-2017-state-of-the-market-report.ashx (pg. 6) (Last visited 1/4/2021). *Emphasis added.*

not eligible to receive uplift credits. This occurs because the majority of nuclear and coal resources, which make up 64.7 percent of real-time generation, are *self-scheduled*."[38]

Second, OCC's allegation that "the report concluded, however, that there were three utilities, like OVEC, with coal plants that had negative net operating revenues in 2019"[39] implies that OVEC was identified as an operator in the report. Again, this is a misrepresentation. The referenced report does not identify any operators by name. Further, the report only discusses operators in MISO, in which OVEC is not an operator, and never discusses PJM, in which of course, OVEC is an operator.

Finally, with respect to OVEC's offers into PJM, even though there are multiple off-takers for each unit, including Sponsoring Companies that take energy external to PJM, as well as those Sponsoring Companies that receive energy revenue from PJM, there is only *one* unit offer made to PJM for each OVEC unit. OVEC performs the offer function, including the commitment status offer, for *all* units. Neither Duke Energy Ohio, nor any other OVEC sponsor, makes any unit offers to PJM for the OVEC units. However, as the LEI Audit Report explains, Duke Energy Ohio monitors OVEC's offers and, at times, requests a change, as was done during the spring of 2020 due to lower energy prices as a result of the COVID-19 pandemic and its effect on electrical demand.[40]

Offering all coal-fired units with an Economic commitment status at all times, as OCC contends OVEC ought to do, is not in the best interests of customers and could cost the customers significant benefits in the PJM market due to the fact that the unit may not be committed even when it is economic to run the unit. The outcome would depend on many different factors, such as

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[38] Available at: https://www.monitoringanalytics.com/reports/PJM_State_of_the_Market/2018/2018q2-som-pjm-sec4.pdf (pg. 19 of 26) (Last visited 1/4/2021). *Emphasis added.*
[39] OCC Comments at 7.
[40] LEI Audit Report at 44-45.

the initial state of the unit (whether it is on or off), startup cost, startup time, incremental and no-load cost of the unit, and locational marginal price (LMP) present at the time.

OCC's conclusion that OVEC somehow acted imprudently by committing its plants as "Must-Run" demonstrates OCC's misconceptions regarding the differences between market commitment and dispatch. Utilizing a commitment status offer of Must-Run in the PJM energy markets does not mean that a generating unit was not economically committed. Further, OCC's recommendation that the OVEC units should be committed as Economic at all times demonstrates OCC's inexperience in effective operation in PJM markets and of prudent operations of coal-fired generation. OCC's recommendation ignores the risks of solely relying upon Day-Ahead energy prices as the sole basis of commitment decisions. A commitment decision based solely upon Day-Ahead market prices fails to factor in unit start-up costs, start-up times, cycling costs, risks with powering down and powering up units, such as unexpected outages that occur as a result of additional unit cycling, an operation that is required for environmental and other testing, impacts of multiple unit startups and shutdowns, as well as the loss of option values by missing the opportunity to respond to power price changes. These factors, as well as forward price curves, must be considered when making unit commitment decisions.

There is no evidence that OVEC acted imprudently in its commitment strategy of the OVEC units. Although the LEI Audit Report noted that Duke Energy Ohio has been assisting OVEC to improve its commitment decisions by using additional data and longer-term forecasts to inform the unit commitment status in PJM, the LEI Audit Report made no finding that OVEC acted imprudently in its commitment strategy. In fact, LEI's recommendations confirm that Duke Energy Ohio is well positioned in the energy offering process to help OVEC make informed decisions and their practice is prudent[41] and that Duke Energy Ohio is well represented in OVEC Operating Committee meetings and is actively engaged and appropriately documents its participation.[42] Moreover, the Audit Report makes note of Duke Energy Ohio's engagement and the recommendations the Company has made to enhance OVEC's market participation and to increase value and profitability.[43] The Audit Report confirms that OVEC produced net positive energy margins for the majority of 2019. For those reasons alone, OCC's recommendations should be rejected.

2. A Requirement To Commit OVEC Solely With a Commitment Status Offer of "Economic" Is Not In Customers' Best Interests.

It would be imprudent and contrary to customers' best interests to make Day-Ahead market prices the exclusive basis for a commitment decision or designation. This is particularly true with respect to base-load coal-fired generation. One must also factor in unit start-up costs, cycling costs, risks with powering down and powering up units, such as unexpected outages that occur as a result of additional unit cycling, operation that is required such for environmental and other testing, impacts of multiple unit startups and shutdowns, as well as the loss of option values by missing the opportunity to respond to power price changes. These factors, as well as forward price curves, must be considered when making unit commitment decisions.

The current PJM Day-Ahead market is not a multi-day commitment. Rather, it is exactly, as the name implies, a one-day at a time market (*i.e.*, 24 hours in length). Always using an Economic commitment status could, at times, cause a unit that becomes economic to remain off-line or the uneconomic cycling of certain units across multiple days. Looking solely at the next twenty-four hours, to the exclusion of price forecasts for subsequent days would result in a

[41] LEI Audit Report at 45
[42] LEI Audit Report at 46
[43] LEI Audit Report at 44-46.

significant loss of value for customers. Quite simply, although the PJM Day-Ahead market is an efficient market that is utilized to the benefit of customers, the PJM Day-Ahead Market construct was never designed to forecast economic commitments beyond the next day. The Day-Ahead Market is designed to minimize the cost to reliably and economically serve the demand for the next 24-hour period. In the Company's practical experience, for units with longer start-up times or higher start-up costs, the Day-Ahead Market will not always result in an optimal commitment of these generating units from an off-line state when being offered with a commitment status of Economic, even though they may be the most economic choice over a multi-day period. For units, such as those of OVEC, that have commitment costs that may not be recovered for a longer period of time (greater than a day), or for units where the startup time, or minimum down times, makes the unit not economically practical to be committed by PJM on a Day-Ahead or Real-time basis, an Economic-only commitment strategy is detrimental to the Company's customers. Additionally, it is simply not operationally possible to shut down and start up all OVEC units at once, which could occur if all 11 units are offered with a commitment status offer of Economic. The units must be cycled on and off independently, not simultaneously. This results in an even greater start up time for the plant to become fully online. It is possible that an off-line coal unit that is economic to operate (revenues greater than variable costs) can go multiple days without a commitment if offered with an Economic commitment status offer to PJM because of the start-up times alone. Whereas, that same unit with a Must Run designation over that same period, receives significant revenues because start-up limitations are not a factor.

There are often times where it is absolutely the best decision to maintain the units' commitment as "Must Run" because switching to an Economic offer based solely on the Day-Ahead energy market would result in missed opportunities for revenues. There are numerous examples where it is absolutely in the best interests of customers to maintain the units' as Must-

Run commitment strategy, even though the day-ahead price (24 hours in advance) would produce a loss. This is because the forward price curves and energy trading demonstrate that the price the day after, or several days after, would more than offset the loss of the Day-Ahead LMP. In those instances, switching to an Economic commitment offer will result in more losses because of additional costs with start-up, cycling time/costs, and risks of units incurring forced outages due to excessive cycling from additional start-ups. This is the case with any generating unit, not just OVEC.

For example, if a unit with a cold startup cost of $10,000 was off-line, the unit would need to receive $10,000 more in revenues than variable costs before startup costs were considered to be committed for a day by the PJM Day-Ahead market, since the Day-Ahead market would typically require that the unit at least break-even, even though once the unit was committed it could run for multiple days and produce additional positive margin. For example, suppose that a unit would receive $5,000 more in revenues than variable costs each day, Monday through Friday. Thus, the total energy margin value for the week would be $5,000 multiplied by 5 days, or $25,000. If offered with an Economic commitment status offer for each day's energy market, the unit would not be committed by PJM since the PJM comparison of *each day's* margin in the Day-Ahead market of $5,000 would be *less* than the startup cost of $10,000. The unit would simply never receive a PJM commitment to operate. Customers would miss out on $15,000 in total value for the week from just this single unit, calculated by taking the $25,000 benefit from running the unit for the week minus the $10,000 to start the unit up. In this situation for just a single unit, the use of a Must-Run offer provides $15,000 of economic value to customers and use of an Economic commitment status offer costs the customer $15,000 in lost opportunity.

When used correctly, for the OVEC units, a "Must-Run" commitment strategy, and one that uses an "Economic" commitment strategy when necessary, will produce greater value for customers than an Economic-only commitment strategy. The price paid to a generator for its energy revenue is the same regardless of the commitment designation. The revenue available to a unit is based upon the LMP and has nothing to do with the status of the unit's commitment, although certain Make Whole Payments are only available when an offer of Economic status is made which is additionally considered in the commitment status offer.

3. A Mixed Commitment Strategy Of Must-Run And Economic That is Informed by Dispatch and Market Forecasts is Prudent and In The Best Interest of Customers.

Duke Energy Ohio has never advocated that OVEC must *only* commit its units on an Economic offer basis. Nor should the Commission impose such a commitment strategy. A pure Economic commitment offer strategy is short sighted and would lead to sub-optimized results for customers, as the units would likely miss significant revenue opportunities. An Economic-only commitment strategy would mean that an off-line unit(s) would only be committed, if the variable costs, including start-up costs, and start-up time, would justify their operations. As a base-load coal-fired generator, OVEC cannot respond quickly to changes in power process on an hourly basis when a unit is cycled off as a result of an Economic commitment offer. PJM may not call upon the units in the Day-Ahead Market because they cannot power up quickly enough in an off-line state, even if it is otherwise economic to operate. So the units would miss significant positive margin opportunities that would exist with a Must-Run commitment model.

Similarly, running the units solely as "Must Run" without consideration of market forecasts and unit limitations, would not be in the best interests of customers. What Duke Energy Ohio has advocated successfully, is that commitment decisions be made based upon a longer view of market data, including using forward power curves, and other market data to make commitment decisions.[44] A proper balance of “Must Run” and “Economic” commitments must be used to maximize value for customers.

Duke Energy Ohio independently projects the expected energy market revenues from the operation of the OVEC units in PJM, the variable costs to operate the units at the forecasted unit hourly loading and the resulting forecasted hourly energy margins. When the Company observes a period where the units are expected to be out of the money and could potentially be decommitted, the Company discusses the matter with OVEC and the Operations Committee. Duke Energy Ohio has advocated that OVEC begin doing this analysis. Although OVEC’s existing processes were entirely prudent and reasonable, Duke Energy Ohio believes that implementing such independent analysis would be a further enhancement.

OCC’s reliance upon LEI’s comparison of PJM Day-Ahead market at the DEOK zone on a monthly-average basis (Figure 29 from the LEI Audit Report) as evidence that OVEC’s 2019 commitment strategy was faulty is misplaced. While the LEI comparison in Figure 29 is informational to show that the OVEC units were in the money, on average, for the majority of 2019 (seven months), this chart is not an accurate or complete depiction of the actual energy value of the units. It is important to understand that when a unit has a loss in the energy market that doesn’t necessarily mean that the unit is being committed incorrectly.

Supplementing this Figure with a simple additional step to calculate the monthly energy margin, an additional column, the “Energy Margin ($)”, can be added to Figure 29 simply by multiplying the column “PJM price less OVEC charge” by the amount of energy produced in a month (available energy billing kWh column), then multiplied by 1000 to display in dollars. As

[44] LEI Audit Report at 44.

clearly shown by this additional calculation, the OVEC units produced over $33 million in energy value (revenue greater than variable costs) during 2019.

Figure 29. OVEC energy charges and PJM market prices at DEOK hub

Month	OVEC energy charge ($)	Available energy billing (kWh)	Energy cost per MWh	PJM DA energy price, DEOK ($/MWh)	PJM price less OVEC charge ($/MWh)	Energy Margin ($)
January-19	$ 26,095,909.66	1,105,653,000	$ 23.60	$ 31.92	$ 8.32	$ 9,199,032.96
February-19	$ 22,256,493.24	947,501,000	$ 23.49	$ 26.83	$ 3.34	$ 3,164,653.34
March-19	$ 25,627,189.22	1,057,392,000	$ 24.24	$ 29.28	$ 5.05	$ 5,339,829.60
April-19	$ 13,775,063.55	510,260,000	$ 27.00	$ 26.72	$ (0.27)	$ (137,770.20)
May-19	$ 19,498,699.86	737,859,000	$ 26.43	$ 25.17	$ (1.26)	$ (929,702.34)
June-19	$ 21,727,221.03	879,553,000	$ 24.70	$ 23.15	$ (1.55)	$ (1,363,307.15)
July-19	$ 26,307,556.53	1,091,065,000	$ 24.11	$ 29.41	$ 5.29	$ 5,771,733.85
August-19	$ 24,345,801.81	957,878,000	$ 25.42	$ 25.14	$ (0.28)	$ (268,205.84)
September-19	$ 21,197,062.29	882,036,000	$ 24.03	$ 27.72	$ 3.68	$ 3,245,892.48
October-19	$ 23,464,684.84	953,130,000	$ 24.62	$ 26.82	$ 2.21	$ 2,106,417.30
November-19	$ 25,456,976.54	1,087,701,000	$ 23.40	$ 30.37	$ 6.97	$ 7,581,275.97
December-19	$ 25,091,643.86	1,024,325,000	$ 24.50	$ 24.06	$ (0.44)	$ (450,703.00)
						$ 33,259,146.97

"Energy Margin" column was created by multiplication of "PJM price less OVEC charge" and "Available energy billing", then dividing by 1000
"Energy Margin" represents the margin for all sponsors, including non-PJM sponsors, since "OVEC energy charge" and "Available energy billing" includes non-PJM sponsors amounts in addition to PJM sponsors amounts.

The summary of the Energy Margin ($) column is a positive energy margin of $33,259,147 million for 2019. Thus, clearly operation of the generating units (the commitment of the units) in the PJM market produced economic value and did not have a negative margin for the year. However, as was correctly identified by the OCC, there were small negative margins during the months of April, May, June, August, and December 2019, that totaled to -$3,149,688, of which the Duke Energy Ohio share was approximately 9 percent. It is important to note that the unit's negative margins in these months were very close to zero, with the units being less than $.50/MWh out of the money during April, July, and December and slightly over $1/MWh out of the money during May and June. There were also times when the generators were marginal, meaning that the revenue and variable costs were basically the same. As previously discussed, at times, it is necessary to accept an at the money or slightly negative energy margin to capture future positive margins. This is a frequent situation for generating units, such as coal-fired generators, that have longer startup times and higher startup costs than other units. Thus, at times, the prudent and reasonable decision is to operate units slightly out of the money or at a break-even point in order to ensure that the units are on-line and operated when the positive margins are present. In a perfect world when ignoring the realities of operating a generating unit, it would be ideal to avoid all of the $3 million in losses while still receiving the $33 million gain, but this is not possible since generating units aren't capable of turning off and back on without additional cost, time, or risk. Additionally, this margin calculation ignores additional factors impacting commitment such as required environmental testing where units are required to run and other operational constraints.

4. OCC'S Discussion of Duke Energy Indiana's Commitment Practices Are Not Relevant to these Proceedings.

Although wholly unrelated to the OVEC matter at hand, on pages 9, 10, and 11 of its Comments, the OCC makes several erroneous statements in discussing Duke Energy Indiana, Inc.'s (Duke Energy Indiana) generating unit commitment practices. For example, OCC first cites to the "Assignment of Generation Resources Committed by the RAC [Reliability Assessment Commitment] Process" (RAC Process) for its position that Duke Energy Indiana "voluntarily agreed that, going forward, it would only dispatch the plants into MISO when it would be economic to do so."[45] OCC does not understand what it is citing. This entire RAC issue had nothing to do with the manner in which Duke Energy Indiana offered its generating units into MISO. Rather the quoted section discusses how the units were committed in the RAC process and how the Make Whole Payments received for this commitment were assigned in the after-the-fact stacking process.

Similarly, on pages 10 and 11 of its comments, OCC alleges that, "Duke Indiana apparently reverted back to designating its uneconomic coal plant as must run units because the issue was

[45] OCC Comments at 9.

litigated in a more recent Fuel Adjustment Clause case, which is awaiting a ruling from the Indiana Commission."[46] OCC goes on to say that, "Duke Energy Indiana agreed to change over to economic dispatch when consumers raised the issue there."[47] Again, OCC misunderstands what was being agreed to in the RAC process, and Duke Energy Indiana never reverted to doing anything differently. Again, OCC is confusing proceedings that addressed how units are assigned after-the-fact and the current Duke Energy Indiana matter in front of the Indiana Commission that deal with commitment of generating units. Nonetheless, issues involving Duke Energy Indiana and its operations in MISO are wholly irrelevant to OVEC's operation in PJM. The Commission should completely ignore OCC's arguments on this topic.

E. OCC'S RECOMMENDATION TO USE MORE RECENT SALES DATA IN RIDER PSR IS MOOT.

OCC adopts LEI's recommendation that the Company begin using more contemporaneous sales data in establishing OVEC charges to customers.[48] This recommendation is moot. Currently, Duke Energy Ohio customers are no longer being billed for Rider PSR charges. Rider PSR was replaced by Rider LGR in accordance with R.C. 4928.148. Rider LGR uses projected sales data for the period for which customers are being billed. In the unlikely event Rider LGR is terminated necessitating the reinstatement of Rider PSR, and if the Commission desires the Company to use more recent sales data, the Company does not oppose this.

F. OVEC CURRENTLY PARTICIPATES IN THE PJM ANCILLARY SERVICES MARKETS.

In its Comments, OCC makes the ill-informed recommendation that "the OVEC Plants should participate in the PJM Ancillary Services Markets to maximize Revenues, thus lowering

[46] OCC Comments at 10.
[47] OCC Comments at 11.
[48] OCC Comments at 12, citing LEI Audit Report at 26.

the overall subsidy being charged to customers."[49] Once again, OCC does not understand OVEC's operations or the impacts of OCC's own recommendations. OVEC is not avoiding the ancillary services market altogether, as OCC's Comments would have this Commission believe. OVEC's participation in the ancillary services markets depends upon the plant's capabilities and whether it can qualify to even participate in the individual markets.

For example, the OVEC units already participate in the PJM ancillary services markets for contingency reserves. Further, as OVEC is incapable of black-start, it is operationally unable to participate in that market absent significant capital upgrades. The only market that OVEC *may* have the ability to participate in, and in which it does not currently participate, is the frequency regulation market. Nonetheless, it is not a foregone conclusion that OVEC could even participate in this particular market. OVEC must first pass a test with PJM to determine if it is capable of providing this service. Moreover, participation in the frequency regulation market, is no panacea as this market is co-optimized with the energy market. In other words, to the extent a unit is able to participate in the frequency regulation market, those MWs are excluded from being committed in the Energy market. Therefore, frequency regulation comes at the expense of potential energy revenue. Although the co-optimized PJM energy market is designed to compensate a generator for the energy loss from the supply of frequency regulation, this may not be true when a unit attempts to provide the regulation service, but fails to perform as expected. An ongoing analysis of risk/reward balancing must occur between these two markets.

Before a decision to participate in the frequency reserve market can be made, OVEC must first be evaluated to determine if it could even qualify for this additional market or if significant capital upgrades would be necessary. Duke Energy Ohio brought this possibility to OVEC's

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[49] OCC Comments at 13.

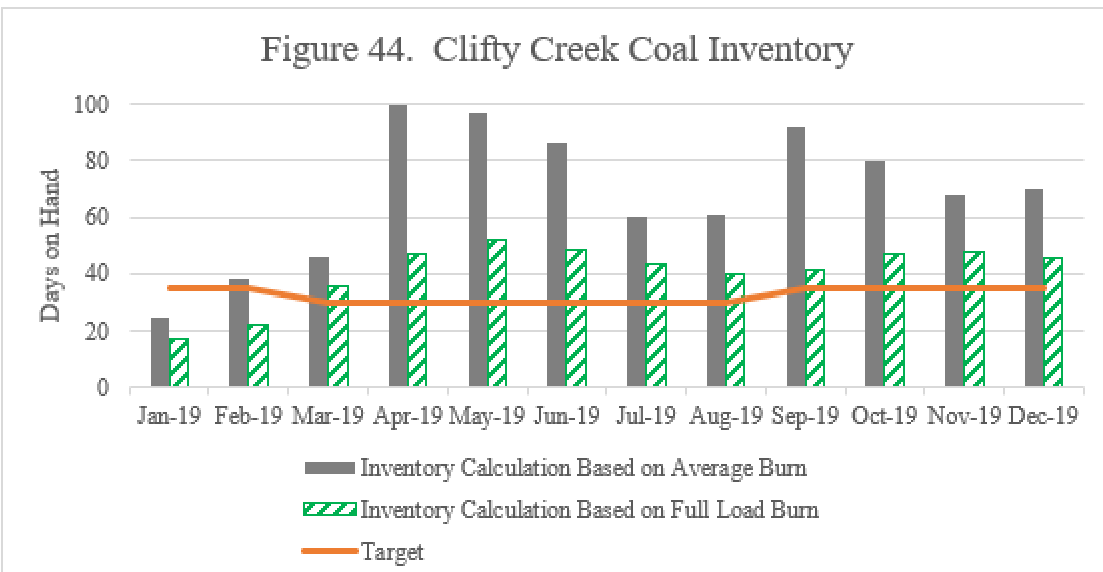
attention a year ago and OVEC has agreed to examine this potential. This evaluation is ongoing. Again, once the internal evaluation is complete and OVEC determines it should participate, PJM must then run its tests to determine whether the units could qualify and to what extent. There is no guarantee that OVEC will "pass the test" or that it will ultimately produce incremental revenues. Duke Energy Ohio remains engaged and will assist OVEC in this process. Duke Energy Ohio agrees to continue to update the Commission on the status of this evaluation and whether OVEC ultimately is able to participate in the frequency regulation market.

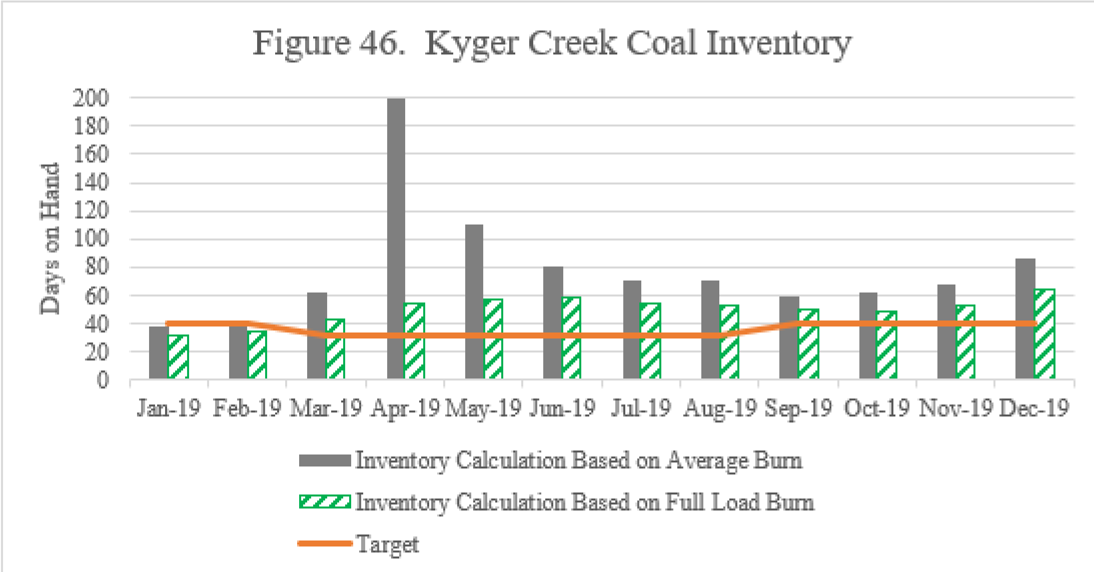
G. OVEC'S 2019 COAL INVENTORIES AND COAL QUALITY WERE NOT THE RESULT OF IMPRUDENCE.

Contrary to OCC's claims, the Audit Report does not make any finding of imprudence regarding OVEC's coal handling. In fact, while the Audit Report notes that coal inventories were higher than target levels in 2019, the report acknowledges that it was triggered by an event in 2019 and may be an anomaly.[50] Moreover, the Audit Report overstates the inventory levels by making an apples-to-oranges comparison to targets. The Commission should ignore OCC's recommendations for a disallowance and moreover reject OCC's request for punitive treble damage calculation of disallowance of coal costs. Duke Energy Ohio does not control OVEC's coal inventories. Nor does it make fuel procurement decisions for OVEC. OCC fails to comprehend that fuel costs charged to the Sponsoring Companies and reflected in Rider PSR are related to fuel actually burned, not fuel that is sitting in inventory. OCC's assertion that Duke Energy Ohio should be penalized and "made to feel a consequence" is misplaced and unsupportable.[51]

[50] LEI Audit Report at 10.
[51] OCC Comments at 14.

Although OVEC's coal inventory levels at Clifty Creek and Kyger Creek were above target in 2019, the Audit Report overstates this overage. The days' target inventory set for both Clifty Creek (35 days) and Kyger Creek (35-40 days) is based on each plant's full-load burn capability. However, the inventory calculations utilized in the Audit Report by LEI were based on the plants' average burn. LEI's use of an average burn calculation instead of the full-load burn capability produces a higher number of days inventory. When utilizing full-load burn methodology, as those targets were established, Clifty Creek inventory levels averaged 43 days in 2019, rather than the 70 days noted in the LEI Audit Report. Likewise, Kyger Creek's inventory averaged 48 days in 2019, not 80 days. Please see below the LEI Audit Report Figures 44 and 46 which were revised to show the monthly inventory levels based on full-load burn methodology. As shown, using this methodology, actual inventory levels were much closer to target inventory levels than using an average burn inventory level methodology.





The reason inventory levels were higher than targets in 2019 can be attributed to several factors. First, PJM power prices were lower than anticipated in 2019, reducing generation demand and increasing inventory levels. In fact, according to the PJM State of the Market Report - 2019, PJM's day-ahead energy prices decreased 28.3% compared to 2018 and real-time energy prices were lower in 2019 than any year since the creation of the PJM energy market in April 1999.[52] Unplanned outages can also affect the levels of the coal inventory, as the forecasted consumption does not materialize. Additionally, contracts for coal deliveries are typically entered into months or years in advance of when the coal is actually needed for consumption. Procurement of coal is based on estimated or forecasted generation levels that change based on market pricing, unit availability and unforeseen conditions. It is OVEC's responsibility to abide by its contractual volume obligations to retain good standing avoiding legal action and material penalties. When needed to help manage inventory levels, OVEC negotiates with its suppliers to defer tons to future periods if the supplier is willing to do so.

[52] State of the Market Report for PJM Volume 2 by Monitoring Analytics LLC March 12, 2020, p. 155 available at: https://www.monitoringanalytics.com/reports/PJM_State_of_the_Market/2019/2019-som-pjm-volume2.pdf.

Similarly, there is no evidence that coal quality acquired by OVEC was imprudent. OVEC evaluates its coal purchases based on a quality adjusted, delivered $/MMBtu price and typically utilizes a competitive request for proposal process to ensure it is purchasing the lowest cost coal available at the time the purchase is made. The contract price will vary due to market timing, but it will also vary due to the quality of the coal. OVEC's standard purchase agreements include a provision whereby the contract price will be adjusted up or down based on the actual heat content (expressed in btu/lb) of the coal delivered. However, each agreement includes a cap on the amount of additional btu/lb for which the supplier can be compensated, as well as provides rights to reject any deliveries that don't meet the minimum contractual quality specifications. As noted by LEI, "even if higher-quality coal was not strictly necessary for operating the plant, higher quality coal has more energy per ton, so less of it is needed to generate a comparable level of energy output."[53] Therefore, if a higher btu/lb quality coal is received than what is contracted or required for the unit, it means *fewer* tons will be needed and thereby offsetting the total cost. Once again, the ICPA provides that OVEC bills the Sponsoring Companies based on coal consumed, not coal purchased and in inventory. There is no justification to disallow any fuel costs related to OVEC's inventory or quality purchase decisions, let alone a punitive trebled disallowance as OCC suggests. The Commission should ignore OCC's claims.

[53] LEI Audit Report at p. 62.

III. CONCLUSION

For the reasons stated above, Duke Energy Ohio respectfully suggests that the Commission reject the modifications proposed by OCC.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served on the following counsel of record by electronic service on this 8th day of January, 2021:

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