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

JOINT REPLY COMMMENTS OF
THE KROGER CO.
AND
THE OHIO MANUFACTURERS' ASSOCIATION ENERGY GROUP

I. INTRODUCTION

On February 13, 2020, the Public Utilities Commission of Ohio (Commission) directed the Staff of the Commission to issue a request for proposal for audit services to assist the Commission with its prudency and performance audit of Duke Energy Ohio, Inc.'s (Duke) Price Stabilization Rider (PSR) for the period of January 1, 2019 through December 31, 2019.[1] On October 21, 2020, the auditor submitted the audit report (Audit Report).[2]

On December 18, 2020, pursuant to the November 25, 2020 Entry, the Office of the Ohio Consumers' Counsel (OCC) submitted initial comments on the Audit Report. OCC explained that, as an initial matter, Duke bears the burden of proof to demonstrate that all actions related to the OVEC plants were prudent and in customers' best interests.[3] OCC also explained that it does not believe that Duke has met this burden with regard to several aspects and recommends that the Commission disallow the collection of imprudent OVEC costs from customers and asks that the

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1 Entry at ¶ 1 (February 13, 2020).

2 Audit Report (October 21, 2020).

3 See OCC Comments at 2-3.

Commission direct Duke to improve its practices where necessary. OCC was the only interested party that filed initial comments in the proceeding.

As explained by OCC, Duke has not demonstrated how its acquisition of FirstEnergy Solutions' OVEC entitlement or how OVEC's must-run strategy is prudent and in the best interest of customers. Furthermore, as OCC noted, the Commission may be able to reduce costs to customers by requiring Duke to use more accurate billing data for its PSR rates and by ordering Duke to study the OVEC plants' participation in PJM's ancillary services market.[4] Lastly, customers should not incur additional costs for OVEC's imprudent fuel management practices.

The Kroger Co. (Kroger) and the Ohio Manufacturers' Association Energy Group (OMAEG) intervened in the above-captioned proceeding on December 18, 2020, and, in accordance with the Commission's November 25, 2020 Entry,[5] hereby submit the following Joint Reply Comments.

II. JOINT REPLY COMMENTS

A. The Commission should disallow any costs associated with Duke's acquisition of a portion of FirstEnergy Solutions' OVEC entitlement.

The Audit Report states: "[i]n the meantime, however, as noted by OVEC 'Per the ICPA… OVEC made available to all other Sponsoring Companies FES's entitlement to available energy under the ICPA.' DEO purchased a portion of FES's entitlement, as discussed in Section 4." [6] Duke has not presented any analysis that this transaction was prudent or in the best interest of customers. To the contrary, as noted by the auditor and OCC's comments, the FirstEnergy

[4] OCC Comments at 13.

[5] Entry at ¶ 9 (November 25, 2020).

[6] Audit Report at 14.

Solutions transaction resulted in a cost of $700,033.00 to Duke's customers.[7] Customers should not be required to pay these unsubstantiated costs in addition to the $23.9 million in other OVEC costs that Duke recovered in 2019.[8] Accordingly, Kroger and OMAEG agree with OCC's comments and recommend that the Commission disallow these costs and prohibit Duke from charging customers for costs related to its acquisition of a portion of FirstEnergy Solutions' OVEC entitlement.

B. The Commission should prohibit Duke from charging customers for OVEC costs when the "must run" strategy is imprudent and unnecessarily costly for Duke's customers.

As explained by OCC in its comments, the Audit Report stated that OVEC operates all but one of the plants as "must run" units in the PJM market.[9] This means that the units operate a specific level at all times, except for unplanned outages or force majeure events.[10] Alternatively, economic dispatch is "the short-term determination of the optimal output of generation facilities, to meet the system load, at the lowest possible cost, subject to transmission and operational constraints."[11] It is counterintuitive to operate plants as must run units when their variable operating costs exceed the PJM market price but that is precisely what OVEC did at times in 2019.[12] The Audit Report acknowledged that Duke recommended to the OVEC operating committee a change in policy regarding its offer strategy.[13] However, as OCC noted in its comments, the Audit Report did not elaborate what policy change Duke recommended or whether

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7 Id. at 26, Figure 8 Column G.

8 Id. at 26, Figure 8 (Total PSR Charge of $24,635,143.47 – FES Transactions of $700,033.00 = $23,935,110.5).

9 See OCC Comments at 5 (citing Audit Report at 43).

10 Id. at 44.

11 See PJM Glossary, https://www.pjm.com/Glossary#index_E.

12 Audit Report at 53.

13 Id. at 44.

Duke's recommendation was accepted and whether OVEC itself acted prudently in continuing its offer strategy.[14] It also did not explain whether Duke's actions were sufficient to cause OVEC to act in a prudent manner.

Given the foregoing findings in the Audit Report and OCC's comments, Kroger and OMAEG agree that Duke failed to meet its burden that Duke acted prudently in authorizing the OVEC plants to run as must run units a majority of the time and whether those actions were in the best interest of customers. Therefore, Kroger and OMAEG recommend that the Commission prohibit Duke from recovering OVEC costs associated with this decision and operating practice.

C. The Commission should direct Duke to review and analyze the impact of requiring OVEC's participation in PJM's ancillary services market.

OCC explained in its comments that OVEC's participation in the ancillary services market could potentially provide OVEC additional revenue, which in turn would reduce customers' PSR charges.[15] The Audit Report noted that OVEC is evaluating the pros and cons of supplying the market for regulating reserves and offered no recommendations except that OVEC should continue doing so.[16] While Kroger and OMAEG appreciate OVEC's efforts to evaluate participation in the ancillary services market, the Audit Report did not identify a clear timeline for such an evaluation or any other parameters. Thus, Kroger and OMAEG support OCC's recommendations that the Commission should require Duke to submit a study of feasibility and potential financial benefits from OVEC's participation in PJM's ancillary services market and depending on the results, require OVEC to participate in PJM's ancillary services market.[17]

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14 OCC Comments at 10-11.

15 Id. at 13.

16 Audit Report at 54.

17 OCC Comments at 13.

D. Customers should not incur additional costs from Duke's imprudent fuel management practices.

The Audit Report recommended that OVEC should improve its inventory management processes.[18] More specifically, the Audit Report determined that at both plants, coal inventory levels in 2019 were substantially higher than the inventory targets, which represent additional costs to customers.[19] The Audit Report then recommended that OVEC examine the process it uses to create coal burn outlooks, and its policy on taking deliveries of coal.[20] Because it is unclear how much these practices cost customers, Kroger and OMAEG support OCC's recommendation that the PUCO should require the auditor to calculate such costs.[21] Furthermore, because OVEC's fuel management practices are imprudent and unnecessarily costly to customers, the Commission should disallow the collection of these costs from Duke's customers.

III. CONCLUSION

For the aforementioned reasons, Kroger and OMAEG request that the Commission adopt the recommendations articulated in their Joint Reply Comments.

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[18] Id. at 76

[19] Id. at 76.

[20] Id.

[21] OCC Comments at 13-14.

Respectfully submitted,

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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 hereby certifies that a copy of the foregoing document also is being served via electronic mail on January 8, 2021 upon the parties listed below.

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