REPORT OF THE MANAGEMENT/PERFORMANCE AND FINANCIAL AUDIT OF THE ALTERNATIVE ENERGY COMPONENT OF THE DAYTON POWER AND LIGHT COMPANY d/b/a AES OHIO

Case No. 20-553-EL-RDR

December 3, 2021

Prepared for:
PUBLIC UTILITIES COMMISSION OF OHIO
180 EAST BROAD STREET
COLUMBUS, OH 43215-3793

Prepared by:

LARKIN & ASSOCIATES PLLC
15728 FARMINGTON ROAD
LIVONIA, MI 48154
(734) 522 – 3420

TABLE OF CONTENTS

LIST OF EXHIBITS

December 3, 2021

Ms. Krystina Schaefer
Ms. Kristin DuPree
Public Utilities Commission of Ohio
180 East Broad Street, 6^{th} Floor
Columbus, OH 43215

Dear Ms. Schaefer and Ms. DuPree:

Attached is Larkin & Associates, PLLC's ("Larkin") report on the Management/Performance and Financial Audit of the June 1, 2020 through May 31, 2021 Alternative Energy Component ("AEC") of Dayton Power and Light Company d/b/a AES Ohio.

The words audit and examination, as used in this report are intended, as commonly understood in the utility regulatory environment, to mean a regulatory compliance review or a means of determining the appropriateness of a utility's financial presentation for regulatory purposes. The term audit in this case does not refer to an analysis of financial statement presentation in accordance with the auditing standards established by the American Institute of Certified Public Accountants. The reader should distinguish the regulatory compliance review performed for this engagement from financial audits performed for the purposes of expressing an opinion on the fair presentation of a company's financial statements in accordance with accounting principles generally accepted in the United States of America. This report was prepared based in part on information not within the control of the consultant, Larkin. While it is believed that the information is reliable, Larkin does not guarantee the accuracy of the information relied upon. This document and the analyses, evaluations, and recommendations are for the sole use and benefit of the contracting parties. There are no intended third-party beneficiaries, and Larkin shall have no liability whatsoever to third parties for any defect, deficiency, error, or omission in any statement contained in or in any way related to this document or the services provided.

Sincerely,

Larkin & Associates PLLC

Larkin & Associates, PLLC

1 EXECUTIVE SUMMARY

Ohio Revised Code ("R.C.") 4928.64 through 4928.645 define a renewable portfolio standard ("RPS") which requires electric distribution utilities and electric service companies to acquire specific minimum percentages of electricity from renewable energy resources annually. The renewable energy requirements were implemented through annual compliance obligations beginning in 2009.

AER Background

Dayton Power and Light Company ("DP&L") is a public utility and electric distribution utility as defined under R.C. 4905.02 and R.C. 4928.01, respectively, and is subject to the jurisdiction of the Public Utilities Commission of Ohio ("PUCO" or "Commission"). It should be noted that on February 24, 2021, DP&L changed its name to AES Ohio (or "Company"). As a result, the Company is referred to AES Ohio throughout this report.

On June 24, 2009, the Commission adopted a stipulation and recommendation in DP&L's electric security plan ("ESP") proceeding authorizing, among other things, DP&L to institute an avoidable Alternative Energy Rider ("AER") to recover costs incurred to comply with Section 4928.64, Revised Code. As initially designed, AES Ohio would implement an avoidable AER that was subject to an annual true up of actual costs incurred. Annual true up would take place no later than June 1 each year by filing an Application for Tariff Approval ("ATA") filing.

In its application for a second ESP filed October 5, 2012, and amended December 12, 2012, DP&L proposed to continue its avoidable AER but to modify it so that it was trued-up on a seasonal quarterly basis rather than annually.[1] Under such an approach, a new AER rate would become effective on March 1, June 1, September 1, and December 1. DP&L acknowledged that the AER would continue to be subject to audit by the PUCO. In September 2013, the Commission approved the shift to seasonal quarterly true-ups.[2]

[1] See PUCO Case No. 12-0426-EL-SSO.

[2] See PUCO Case No. 12-0426-EL-SSO, Opinion and Order (Sept. 4, 2013) at 31.

On October 20, 2017, the Commission adopted a modified stipulation in DP&L's third ESP which included, among other things, DP&L's proposal to recover its reasonable costs of complying with the RPS as a component of the Standard Offer Rate ("SOR") instead of as a separate AER tariff.[3] As part of its proposal, DP&L committed to separately identify the RPS compliance costs in supporting schedules. In November 2019, the Company withdrew its ESP III, but continued to include the AER as part of the SOR. As a result, and as discussed in more detail in Chapter 3, the Company began filing its AER on an annual basis as a component of its Standard Offer Rate ("SOR") starting in November 2017. Since the AER is no longer a stand-alone rider, it is now referred to as the Alternative Energy Component ("AEC") for periods subsequent to November 2017.

The PUCO solicited proposals for the performance of the AEC audits into two phases, including the periods of June 1, 2016 through May 31, 2020 (Audit 1) and June 1, 2020 through May 31, 2021 (Audit 2). Larkin & Associates PLLC (Larkin) was selected by the PUCO to perform the desired management/performance and financial audits. Larkin, as a subcontractor to Energy Ventures Analysis, had previously performed the audit of the AER for 2015.

This report covers the "Audit 2" period, June 1, 2020 through May 31, 2021.

Audit Approach

Larkin conducted this audit through a combination of document review, interrogatories, and interviews.

As part of its review of renewable energy resources, Larkin asked AES Ohio a series of questions pertaining to its REC purchases from an initial set of data requests designated as LA-Audit2-1-1 through LA-Audit2-1-60 as well as two additional sets of data requests (i.e., LA-Audit1-2-1 through LA-Audit1-2-10 and LA-Audit2-3-1) as well as informal inquiries.

Larkin conducted interviews and a walkthrough of AES Ohio's AEC documentation via a Microsoft Teams Meeting with the individuals in the positions listed in Exhibit 1-1 on October 15, 2021. PUCO Staff also participated in the interviews.

Exhibit 1-1. Interviews Conducted

Title	Department
Regulatory Analyst	Regulatory
Manager	Regulatory Accounting
Senior Analyst	Term Management
Director	Regulatory Accounting
Program Manager	Regulatory
Legal Counsel III	Legal

[3] See PUCO Case No. 16-0395-EL-SSO, Opinion and Order (Oct. 20, 2017).

Follow-up on Status of the Company's Implementation of Recommendations from the prior 2015 Audit

In Case No. 16-0224-EL-FAC, Energy Ventures Analysis ("EVA"), along with Larkin as a subcontractor, conducted the management and financial audit of DP&L's Rider AER for the January 1 through December 31, 2015 review period.[4] On July 31, 2019, the Commission issued its Opinion and Order, which discussed (1) the recommendations related to DP&L's 2015 Fuel Rider, and (2) the recommendations related to DP&L's 2015 AER Rider.

As it relates to the recommendations for the Company's AER for the 2015 review period, Section IV, paragraph 16 of the Commission's Opinion and Order dated July 31, 2019 states:

> DP&L will continue to respond to Staff for information regarding renewable energy credit (REC) procurement costs, policies, and procedures in future AER cases. DP&L will implement Management Audit Recommendation 4 relating to REC procurement strategy, on page 1-6 of the 2015 audit report.

Specifically, Recommendation 4 from EVA/Larkin 2015 audit report in that case stated:

> DP&L should develop and implement a REC procurement strategy. At a minimum, this strategy should consider the following:
>
> - Expected REC requirements (solar and non-solar) by Ohio utilities;
> - Impact of future actual and potential Federal/State RPS requirements on REC availability;
> - Expected REC supply from qualifying sources;
> - Opportunities to develop a portfolio risk management strategy wherein commitments for future REC requirements can be layered in; and
> - Cost of and opportunity for long-term commitments for RECs.

Pursuant to the passage from the Commission's Opinion and Order cited above from Case No. 16-0224-EL-FAC, during Audit 1, Larkin had requested that the Company provide a narrative which explains how the Company complied with the recommendation to develop and implement a REC procurement strategy, and with each of the bullet points referenced above from Recommendation 4.

Status: In its response to LA-Audit1-2-1 from Audit 1, the Company stated:

> Since the July 31, 2019 issuance of the Commission's Opinion and Order referenced above, there have been no market activities conducted in which to institute the new REC procurement strategy. Moreover, due to recent changes in law, specifically those amending the RPS requirements set forth under R.C. 4928.64, DP&L is reviewing and evaluating the possibility of future changes to RPS requirements as it relates to our current REC volumes in inventory. To the

[4] This project also involved EVA and Larkin conducting the management and financial audit of DP&L's Fuel Rider for the 2015 review period.

> extent further REC procurement is necessary, DP&L adopts the recommended procurement strategy for future procurement decisions.

Larkin followed up with AES Ohio regarding the passage above such that the Company did not provide the requested narrative which explains how AES Ohio complied with the recommendation to develop and implement a REC procurement strategy. In an email dated November 10, 2020 during Audit 1, the Company stated:

> DP&L has not had a need to make any REC purchases since the approval of the 2015 audit by the Commission on July 31, 2019 and therefore has not had to implement or utilize a new procurement strategy based on those recommendations at this time. DP&L plans to implement the approved recommendations in future procurements.

In our report for Audit 1 dated December 3, 2020, Larkin recommended that the Company comply with Recommendation 4 from the EVA/Larkin 2015 audit report and to demonstrate its compliance by providing a written document containing AES Ohio's REC procurement strategy. In addition, Larkin indicated it would follow up with the Company regarding this issue during Audit 2 of AES Ohio 's AEC. Furthermore, in its Finding and Order dated June 16, 2021, the Commission stated the following:

> Initially, the Commission notes that the recommendation from the 2015 Audit Case resulted, at least in part, from the Company's execution of a stipulation under which DP&L specifically committed to developing and implementing a REC procurement strategy that considered, at a minimum, the enumerated considerations. 2015 Audit Case, Opinion and Order (July 31, 2019) at ¶ 16; Report (Aug. 23, 2016) at p. 1-6. The Commission further notes that, while DP&L may not have needed to purchase any RECS since that Opinion and Order, full compliance with the agreement to develop and document a procurement strategy is expected.

Larkin Conclusion: Larkin followed up with AES Ohio regarding this issue with data request LA-Audit2-2-1. In response to our inquiry as to whether the Company has developed and implemented a new REC procurement strategy since the Audit 1 report, in its supplemental response to LA-Audit2-1-51, the Company provided a document titled "AES Ohio Renewable Energy Credit Guidelines for Ohio RPS Compliance" ("REC Guidelines"). The Company stated that this document was developed in response to (1) Recommendation 4 from the EVA/Larkin 2015 report, and (2) Larkin's recommendations from our Audit 1 report, covering the period June 1, 2016 through May 31, 2020 (see discussion below).

The stated purpose of the REC Guidelines document is as follows:

> This document will serve to provide details on the current approved strategy that will govern the market activities by authorized personnel in the management of AES Ohio's renewable energy portfolio to comply with current Ohio renewable energy portfolio standards (RPS).

The REC Guidelines document provides an overview of the current requirements, which is that under current Ohio legislation established by HB 6, all Ohio electric distribution or electric service companies must comply with Ohio's renewable energy portfolio standard, which requires that 8.5% of all electric sales during the calendar year must be generated from renewable energy sources by 2026 (see additional discussion in Chapter 3).

As it relates to authorized personnel, the REC Guidelines document states that all commercial personnel that are authorized to manage the requirements under the current RPS on behalf of AES Ohio as well as AES Ohio's regulatory personnel will provide oversight for all REC procurement activities. The current procurement strategy as discussed in the REC Guidelines is as follows:

> Annual target for AES Ohio will be to achieve 100% compliance under the current standards. This means that AES Ohio will procure all necessary renewable energy credits to satisfy its requirement based upon actual sales for the applicable term.[5]

The REC Guidelines document includes the following under a section titled "Authorized Transaction Limits":

- Term Limit – Commercial personnel will be authorized to transact for volumes to satisfy its projected requirement for the current calendar year and preceding calendar year.
    - If the recommended transaction extends beyond this term, commercial personnel will discuss the potential transaction and provide additional details to regulatory personnel for approval.
- Transaction Size – Commercial personnel will limit the total volume for a single transaction to less than 100,000 renewable energy credits. This will limit the possible exposure by AES Ohio to a single entity and reduce the risk of market discovery by other entities.
- Notional Value – If the notional value of a proposed transaction will exceed $1 million, then prior to transacting commercial personnel will also notify accounting and credit for approval along with regulatory personnel.

Based on our review of the REC Guidelines document, it appears that the Company has developed the REC procurement strategy that was recommended in the EVA/Larkin 2015 audit of the Company's AER. However, since the REC Guidelines document was developed and provided to Larkin on November 10, 2021 (per the supplemental response to LA-Audit2-1-51), and because AES Ohio has not entered into additional new transactions to buy RECs for Ohio RPS compliance during the current review period, insufficient time has passed in order to determine whether the guidelines contained therein have been implemented by AES Ohio and put into practice.[6] Therefore, Larkin recommends that during the next audit of AES Ohio's

---

[5] As discussed in more detail in Chapter 3, in its annual compliance filing that was filed on April 15, 2021, AES Ohio used its 2020 Baseline Sales level which was calculated using the Company's standard offer sales that occurred during 2020 pursuant to O.R.C. § 4928.643.

[6] To clarify, this comment (and similar comments throughout this report) is based on our Audit 1 recommendations and relates to events and/or activities that have not occurred yet since the documentation and/or procedures

AEC, the auditor conducting that audit review relevant documentation and make inquiries to determine whether the Company has in fact implemented the guidelines set forth in the REC Guidelines document.

Follow-up on Status of the Company's Implementation of Larkin's Recommendations from Audit 1 Covering the Period June 1, 2016 through May 31, 2020

In its Finding and Order dated June 16, 2021, the Commission adopted our Audit 1 recommendations in their entirety and stated that Larkin should review the implementation of these recommendations during Audit 2. Pursuant to that Commission directive, in response to our inquiry in LA-Audit2-1-51, the Company stated:

> Larkin's recommendations from Phase 1 of the audit were just approved by the Commission in a Finding and Order issued on June 16, 2021. Thus, the Company has not yet had time to implement the approved recommendations. Moreover, the Company has not had any meetings or discussions surrounding the Ohio legislation or renewable compliance portfolio standards during the audit period.

The date of the response to LA-Audit2-1-51 was June 3, 2021. During a Microsoft Teams meeting with the Company on October 15, 2021, AES Ohio stated that it was in the process of developing internal policies with respect to Larkin's Audit 1 recommendations and would supplement the response to LA-Audit2-1-51 once completed. The Company provided its supplemental response to LA-Audit2-1-51 on November 10, 2021.

Larkin's Audit 1 report included the following six Management audit recommendations, which were approved by the Commission in its Finding and Order dated June 16, 2021:

1. Larkin recommends that the Company monitor and document changes in the REC markets and legislation that can be used to improve the Company's forecasting process and REC purchasing.

   AES Ohio Response: In its supplemental response to LA-Audit2-1-51, the Company provided a document titled "AES Ohio AER REC Legislation Memo" ("AER Memo"), the stated purpose of which is to implement a process by which AES Ohio can monitor the impacts of the HB 6 legislation and to maintain a written record of the meetings related to HB 6 so that the Company will be in a position to fully meet compliance regulations. In addition, under a section titled "Process", it states that the Company will hold a Microsoft Teams meeting once a month in order to discuss any and all relevant changes in the REC markets and legislation. These Teams meetings will include the following personnel: (1) Vice President of Government Affairs, (2) legal counsel, (3) Director of Regulatory Accounting, (4) Manager of Regulatory Accounting, (5) Regulatory Analyst, and (5) REC purchaser.

responding to our Audit 1 recommendations was provided by AES Ohio on November 10, 2021, thus we have been unable to verify the implementation of our Audit 1 recommendations at this time.

Larkin Conclusion: It appears that the Company has developed a strategy to monitor and document changes in the REC markets and legislation that can be used to improve its forecasting process and REC purchasing. However, since the AER Memo was developed and provided to Larkin on November 10, 2021 (per the supplemental response to LA-Audit2-1-51), there has not been sufficient time to verify whether the process described therein has been implemented and put into practice. Therefore, Larkin recommends that during the next audit of AES Ohio's AEC, the auditor conducting that audit review relevant documentation and make inquiries to determine whether the Company has in fact implemented the process set forth in the AER Memo pursuant to Management Recommendation 1.

2. In Larkin's view, a written record (e.g., meeting minutes) of the Company's meetings related to market monitoring and REC purchase and inventory management decisions should be maintained. Therefore, Larkin recommends that going forward, DP&L maintain a written record which memorializes departmental meetings and/or conference calls in which discussions are held and decisions are made pertaining to things such as Ohio legislation (current and/or proposed) and prevailing market conditions as it relates to the purchase of solar and non-solar RECs for Ohio renewable compliance.

   AES Ohio Response: In response to our recommendation, in its supplemental response to LA-Audit2-1-51, the Company provided REC Guidelines document that was discussed above pursuant to Recommendation 4 from the 2015 EVA/Larkin audit of the Company's AER. In a section of the REC Guidelines titled "Transaction Execution", it states that a written record (e.g., meeting minutes) of the Company's meetings related to market monitoring and REC purchase and inventory management decisions should be maintained. In addition, as noted above with regard to Management Recommendation 1, the aforementioned AER Memo states that the Company will hold a Microsoft Teams meeting once a month in order to discuss any and all relevant changes in the REC markets and legislation.

   Larkin Conclusion: Based on the foregoing, it appears that AES Ohio has developed a process whereby it will maintain a written record which memorializes departmental meetings and/or conference calls in which discussions are held and decisions are made pertaining to Ohio legislation and prevailing market conditions for Ohio RPS compliance. However, since the REC Guidelines and AER Memo were developed and provided to Larkin on November 10, 2021 (per the supplemental response to LA-Audit2-1-51), there has not been sufficient time to verify whether the processes described in those documents have been implemented by AES Ohio and put into practice. It should also be noted that as of the date of this report, the Company has not provided any meeting minutes. Therefore, Larkin recommends that during the next audit of AES Ohio's AEC, the auditor conducting that audit review relevant documentation and make inquiries to determine whether the Company has in fact implemented the processes set forth in the REC Guidelines and the AER Memo pursuant to Management Recommendation 2.

3. Larkin recommends that a written memo be maintained for REC purchases that briefly summarizes the reason for the purchase and the market information and REC inventory position and RPS requirements available and considered at that time.

AES Ohio Response: In the section of the aforementioned REC Guidelines titled "Transaction Execution", it states that a written memo will be maintained for REC purchases which briefly summarizes the reason for the REC purchase and the market information and REC inventory position and RPS requirements available and considered at that time.

Larkin Conclusion: Based on the foregoing, it appears that AES Ohio has developed a process whereby it will maintain a written record for its REC purchases as per Management Recommendation 3. However, since the REC Guidelines was developed and provided to Larkin on November 10, 2021, there has not been sufficient time to verify whether the processes described in that document has been implemented and put into practice. Also, AES Ohio did not have any new REC purchases during the current review period for which a memo would have needed to be prepared. Therefore, Larkin recommends that during the next audit of AES Ohio's AEC, the auditor conducting that audit review relevant documentation and make inquiries to determine whether the Company has in fact implemented the process set forth in the REC Guidelines pursuant to Management Recommendation 3.

4. Larkin recommends that DP&L continue to monitor the impacts of the HB 6 legislation that was signed into law by Governor DeWine on July 23, 2019 and effective on October 22, 2019. Specifically, we recommend that DP&L evaluate its current REC inventory for compliance in 2020 and through 2026 in terms of sufficiency to meet the revised requirements of HB 6. Specifically, the Company should evaluate whether its remaining 26,635 solar RECs could be sold and replaced with lower-cost RECs to meet revised compliance RPS requirements for 2020 and beyond. The Company should prepare and retain documentation of its evaluation of HB 6, including evaluation of its REC inventory and for purchasing RECs for the remainder of 2020 and for 2021-2026 RPS compliance.

   AES Ohio Response: In the aforementioned AER Memo, it states that the monthly meetings will monitor and document any legislative changes related to HB 6 that reaches the status of "1st hearing in a committee", including but not limited to HB 738 and HB 772 (see additional discussion in Chapter 3). All meeting times, discussions and decisions related to Ohio REC legislation will be documented and shared in a Microsoft Teams folder with full access by the responsible parties listed above concerning Management Recommendation 1. In addition, in the section of the aforementioned REC Guidelines titled "Additional Information to be Retained", it states that AES Ohio will prepare and retain documentation of its evaluation of HB 6, including evaluation of its REC inventory and for purchasing RECs for 2021 through 2026 compliance.

   Larkin Conclusion: It appears that AES Ohio has developed a process whereby it will evaluate its current REC inventory for compliance in 2020 and through 2026 in terms of sufficiency to meet the requirements of HB 6 and that the Company will prepare and retain documentation related to its evaluation of HB 6, including evaluation of its REC inventory and for purchasing RECs for the remainder for 2021-2026 RPS compliance (AES Ohio filed its annual compliance filing for 2020 RPS compliance on April 15, 2021). However, since the REC Guidelines were developed and provided to Larkin on November 10, 2021, there has not been sufficient time to verify whether the processes described in these documents have been implemented by AES Ohio and put into practice. Therefore, Larkin recommends that during the next audit of AES Ohio's AEC, the auditor conducting that audit review relevant documentation and make inquiries to determine whether the Company has in fact implemented the process set forth in the REC Guidelines and AER Memo pursuant to Management Recommendation 4.

As discussed in more detail in Chapter 3, of the 26,635 solar RECs referenced in Recommendation 4, the Company retired 19,601 of the 26,635 solar RECs as part of its annual compliance filing that was filed with the Commission on April 15, 2021. In addition, the Company stated that is continues to monitor market pricing for solar RECs and that after discussions related to the eligibility of its current solar REC inventory, AES Ohio determined that eligibility was limited to Ohio markets. Based on the current pricing levels for Ohio eligible solar RECs, the Company stated it will continue to retain all of its solar (and non-solar) REC inventories for use in Ohio RPS compliance.

5. Pursuant to the proposed legislation to repeal HB 6, Larkin recommends that DP&L monitor the status of HB 738 (introduced on July 29, 2020) and HB 746 (introduced on August 6, 2020), both of which were referred to the Select Committee on Energy Policy and Oversight on August 31, 2020, as well as HB 772, which was introduced on September 30, 2020. Larkin recommends that written documentation of such evaluations and related discussions be maintained by DP&L.

   AES Ohio Response: See AES Ohio's response above as it relates to Management Recommendation 4. However, as discussed in further detail in Chapter 3, the proposed legislation to repeal HB 6 will not be moving forward.

   Larkin Conclusion: Our review of Ohio legislation and discussions with AES Ohio and the PUCO Staff confirms the Company's assessment that proposed legislation to repeal HB 6 in its entirety has not moved forward and currently appears unlikely to soon (if ever) be signed into law. Also, see Larkin's conclusion above as it relates to Management Recommendation 4.

6. Improve forecasting and monthly REC usage estimate procedures to avoid continuation of inventory adjustments after retirements for RPS compliance to remove RECs from REC inventory and/or reduce REC costs in inventory as occurred in 2018 and 2019.

   AES Ohio Response: The Company provided the following narrative to address this recommendation (as well as Financial Recommendation 4 below):

   > The 'restoration entries'/ annual adjustments will no longer be needed; thus, AES Ohio does not believe that issue 6 and 4 are relevant to the current audit period. REC usage is based on the percentage of load used by those customers not receiving generation from a CRES. REC usage follows load which is dependent largely on weather variations and other factors. RECs are expensed monthly based on actual load for all the days that are available at the time of monthly closing. Any estimates are trued up in the next month for actuals. An annual year-end REC inventory "restoration" entry was not made for 2020 and will not be made going forward due to weighted average cost of inventory accounting. For

accounting records, RECs are expensed using the weighted average cost of inventory. There may still need to be a true-up for the difference between estimated consumer usage and actuals for December that are not available at the time of monthly year-end close or any adjustments made due to metering adjustments for the year. The true-up for December typically will be minimal due to the timing of the estimate similar to each month.

Weighted average cost of inventory methodology is inline with FERC guidelines. Per *Ameren Illinois Company, 170 FERC ¶ 61,627, (Mar. 27, 2020)* FERC found that RECs should fall under Order No. 552. *18 CFR pt. 101, General Instruction 21D* states that "Issuances from inventory from inventory included in Account 158.1 and Account 158.2 shall be accounted for on a vintage basis using a monthly weighted-average method of cost determination." This language was written for NOx and SO2 allowances which had specific vintage years the RECs do not have attributed to them. The vintage year language is not relevant to RECs as it was with NOx and SO2 allowances.

Larkin Conclusion: Based on the foregoing, it appears that the Company has taken steps to improve forecasting and monthly REC usage estimate procedures to avoid the need to make inventory adjustments after retirements for RPS compliance by removing RECs from inventory and/or reducing REC costs in inventory. It should be noted that AES Ohio did not make any year-end entries in the current review period that resulted in dollars being added to its REC inventory. However, since the REC Guidelines was developed and provided to Larkin on November 10, 2021, there has not been sufficient time to verify whether the process described above has been implemented by AES Ohio, thus eliminating the need to make adjustments to inventory after RECs have been retired for RPS compliance. Therefore, Larkin recommends that during the next audit of AES Ohio's AEC, the auditor conducting that audit review relevant documentation and make inquiries to determine whether the Company has in fact implemented the process set forth above. In addition, the next auditor of AES Ohio's AEC should review any true-ups that were made for the difference between estimated consumer usage and actuals for December that were not available at the time of monthly year-end close or any adjustments made due to metering adjustments for the year.

Larkin's Audit 1 report included the following four Financial audit recommendations, which were approved by the Commission in its Finding and Order dated June 16, 2021:

1. Larkin recommends that DP&L prepare the position report that was provided in the response to LA-Audit1-1-31 each month as part of its permanent records to ensure that it has adequate RECs in inventory to be in compliance with Ohio renewable requirements.

   AES Ohio Response: In the section of the aforementioned REC Guidelines titled "Position Reporting", it states the following:

   > Commercial personnel will maintain a current position report that details both its expected requirement and current inventory of renewable energy credits. The position report will include at a minimum:

- Projected RPS requirement – based upon actual monthly sales volumes as reported by AES Ohio regulatory. Future years' RPS requirement will be based upon the baseline compliance obligation for the previous year as detailed in the annual RPS compliance status report unless it is determined that current market conditions dictate a shift in projected future year sales. AES Ohio will document any changes made to its methodology.
- Current REC inventory – all current inventories currently held in the AES Ohio account under the PJM Generation Attribute Tracking System (GATS). Total volumes will be broken out into both Non-Solar and Solar based upon the generator type.
- Transaction Log – details on all transactions executed. This will provide audit tracking and accounting validation.
- Market Pricing – based upon actual market quotes from third parties or from authorized brokerage companies.

In addition, the position report will be maintained monthly and provided to all necessary personnel on a quarterly basis at a minimum. Commercial personnel will provide an updated position report along with any relevant market information or necessary documentation to regulatory and accounting personnel.

Larkin Conclusion: AES Ohio has complied with our recommendation that the Company prepare the position report on a monthly basis. AES Ohio provided a copy of its REC position report for the review period in its response to LA-Audit2-1-31.

2. Because there is a possibility that HB 6 could be repealed and a solar REC requirement could again become a requirement for RPS compliance, Larkin recommends that DP&L maintain sufficient REC inventory quantity and cost detail to enable the accurate re-establishment of separate solar and non-solar REC inventories, at least until such uncertainty is resolved. Given this uncertainty, DP&L's monthly position reports should show a breakout between the Company's non-solar and solar REC inventory balances.

   AES Ohio Response: See AES Ohio's response above as it relates to Management Recommendation 4. As noted above and discussed in further detail in Chapter 3, the proposed legislation to repeal HB 6 has not been moving forward.

   Larkin Conclusion: See Larkin's conclusion above as it relates to Management Recommendation 4.

3. Larkin recommends that the Company continue to compile its monthly journal entry packets and that going forward, the journal entry packets should also include a description and illustrative calculation of the discretionary 3% cost cap.

   AES Ohio Response: As previously noted, the Commission approved Larkin's Audit 1 recommendations in its Finding and Order dated June 16, 2021. As it relates to this recommendation regarding the 3% cost cap calculation being included in AES Ohio's journal entry packets, the Company provided a copy of its journal entry packet for July 2021. While this journal entry packet is outside the review period for this audit, we noted that the Company did include the 3% cost cap calculation pursuant to our recommendation. An illustration of the Company's 3% cost cap calculation is included in Chapter 4.

Larkin Conclusion: Based on the foregoing, Larkin concludes that AES Ohio did implement Financial Recommendation 3.

4. Larkin recommends that the Company review its history of monthly REC usage and annual adjustments after retirements for RPS compliance to remove RECs from inventory and/or reduce REC costs in inventory (which have occurred in each year 2018, 2019 and 2020) and develop improved forecasting and estimation processes to better calibrate REC compliance usage throughout the year and thereby avoid or minimize annual year-end REC inventory restoration entries.

   AES Ohio Response: See AES Ohio's response to Management Recommendation 6 above, which the Company stated applies to Financial Recommendation 4 as well.

   Larkin Conclusion: See Larkin's conclusion to Management Recommendation 6 above.

Major Management Audit Findings

1) During the period June 1, 2020 through May 31, 2021, no changes to the AEC occurred during the review period, but the AEC changed from a quarterly filing to being included in the annual Standard Offer Rate ("SOR") filing beginning in November 2017 as was discussed in our Audit 1 report. The reason for switching to an annual AEC filing was due to the Commission adopting the modified stipulation in AES Ohio's third ESP which included AES Ohio's proposal to recover its reasonable costs of complying with the RPS as a component of the SOR instead of as a separate AER tariff.

2) On July 23, 2019, Governor DeWine signed into law Amended Sub House Bill 6, which became effective on October 22, 2019. Due to HB 6 not being effective until late 2019, this legislation affected the Company's planning and REC procurement starting in the 2020 compliance year. These legislative changes impact AES Ohio's REC inventory to meet compliance requirements in the 2020 through 2026 period. The change also indirectly affected AES Ohio's REC management by impacting the market value of Ohio solar RECs. The removal of the separate requirement resulted in devaluing Ohio solar RECs, as explained below.

3) Among other things, HB 6 eliminated the distinction between Ohio solar RECs and other compliance RECs. Historically, the price for solar compliance RECs has been higher than non-solar compliance RECs. This presented an opportunity for AES Ohio to sell solar RECs that are not needed for 2020 compliance and to credit the cost of the solar RECs that are no longer specifically needed for compliance beyond 2019 against compliance costs.

4) Pursuant to HB 6, effective January 1, 2020, AES Ohio merged its solar and non-solar RECs into a single REC inventory, which was reflected in the Company's WACI reports for the June 2020 through May 2021 monthly periods.

5) HB 6 also eliminated the Ohio RPS mandate after 2026 at 8.5%. This will affect the number of RECs that AES Ohio will need for future compliance.

6) Legislation to repeal HB 6 was proposed during 2020 including (1) HB 738, which was introduced on July 29, 2020, (2) HB 746, which was introduced on August 6, 2020, and (3) HB 772, which was introduced on September 30, 2020.

7) HB 738 and 746 were proposed to repeal Sections 4 and 5 of HB 6 of the 133rd General Assembly to repeal the changes made by HB 6 of the 133rd General Assembly to the laws governing electric service, renewable energy, and energy efficiency and the changes made to other laws.

8) HB 772 was proposed to repeal Section 5 of HB 6 of the 133rd General Assembly to make changes regarding electric utility service law, to repeal certain provisions of HB 6 of the 133rd General Assembly.

9) Proposed HB 738 and HB 746 were both referred to the Select Committee on Energy Policy and Oversight on August 31, 2020. A hearing for proposed HB 772 was scheduled for November 19, 2020 before the House Select Committee on Energy Policy and Oversight. The foregoing legislation to repeal HB 6 was proposed in the 133rd assembly session, which has since ended without any changes being made. Therefore, the legislation to repeal HB 6 will not be moving forward

10) As it relates to selling a portion or all of its excess solar RECs, the Company continues to monitor market pricing for solar RECs. Pursuant to discussions related to the eligibility of its current solar REC inventory, AES Ohio determined that eligibility was limited to the Ohio markets. Based upon current pricing levels for Ohio eligible solar RECs (which has largely converged with the pricing for non-solar RECs that can be used for Ohio RPS compliance), the Company has indicated that it intends to continue to retain its current solar REC inventories for use in future Ohio RPS compliance.

11) The Company does not have any written documentation related to the discussions about the potential repeal of HB 6 and/or the possible disposition of its excess solar REC inventory. However, pursuant to our Audit 1 recommendations, as discussed above, AES Ohio will prepare and retain documentation of its evaluation of Ohio legislative developments affecting RPS compliance requirements, including evaluation of its REC inventory and for purchasing RECs for 2021 through 2026 compliance. As previously noted, the Company is retaining its remaining solar RECs to satisfy future obligations under the current Ohio RPS, but would evaluate the status of any solar REC volumes as a result of legislative changes relating to Ohio RPS or changes in market conditions.

12) AES Ohio does not currently have any plan in place for the possibility of legislative changes to the current RPS requirement since it is required to comply with the law as it currently exists. Therefore, the Company's position is to actively monitor any proposed changes in legislation and identify what changes could be needed, but to not alter its current processes until any legislative changes are ratified.

13) AES Ohio's objective is to procure the necessary RECs to meet the Company's RPS requirements. The Company did not have any shortfalls pursuant to meeting its annual

RPS requirements during the review period, thus there was no need to obtain any waivers.

14) AES Ohio's REC inventory management and REC acquisition policy is to maintain a minimal bank (i.e., REC inventory balance) and to purchase RECs either in the year of compliance or one year in advance of its RPS compliance requirements. As a result, the Company's ending REC inventory consisted of 269,785 non-solar RECs and 18,928 solar RECs as of May 31, 2021. In addition, during the audit period, the Company did not enter into contracts with multiple year streams of deliveries.

15) During the Audit 1 review period (i.e., June 1, 2016 through May 31, 2020), the Company did not maintain written records (e.g., meeting minutes and supporting documentation) which memorialize all departmental meetings and/or conference calls related to discussions held and decisions made pertaining to things such as Ohio legislation (current or proposed) and prevailing market conditions as it relates to the purchase of non-solar and solar RECs needed for RPS compliance. However, pursuant to Recommendation 4 from our Audit 1 report (and discussed above), the Company provided its REC Guidelines, which includes a section titled "Transaction Execution" whereby it states that a written record (e.g., meeting minutes) of the Company's meetings related to market monitoring and REC purchase and inventory management decisions will be maintained. In addition, the AER Memo that was discussed above states that the Company will hold a Microsoft Teams meeting once a month in order to discuss any and all relevant changes in the REC markets and legislation.

16) As it relates to issues related to AES Ohio's REC portfolio management, decisions pertaining to the management of the AES Ohio REC portfolio are overseen by the AES Commercial Operations Department along with the AES Ohio Regulatory and Accounting departments. Commercial Operations personnel are responsible for monitoring market conditions and providing regulatory or other personnel with analysis as requested. Various market conditions are evaluated when making procurement decisions. Market conditions can include current pricing levels, depth of the market, and potential counterparties along with any other relevant information. Procurement decisions are executed by Commercial Operations personnel as needed. A position report is maintained by Commercial Operations that details the forecasted compliance volumes along with current inventory volumes for a minimum of 3 years. A copy of the Company's position report was provided in response to LA-Audit2-1-31. Commercial Operations personnel also review monthly accounting files to ensure accuracy of inventory information and Company sales figures.

17) AES Ohio's REC inventory at the end of each month during the review period maintained sufficient non-solar and solar RECs to meet RPS compliance requirements for 2020, and, although RPS compliance is measured on an annual basis, AES Ohio's REC inventory continued to maintain adequate RECs to meet RPS compliance for the period January through May 2021.

18) Beginning in 2020, the Company's non-solar and solar REC inventory balances were blended for compliance purposes due to the enactment of HB 6, the passage of which no

longer mandated a separate solar carve out for Ohio compliance. However, AES Ohio's internal monthly position report still breaks out its REC inventory into solar and non-solar.

19) AES Ohio provided its Annual Alternative Energy Portfolio Status Report for 2020 compliance that was filed with the PUCO in April 2021. The Company's compliance report stated that AES Ohio achieved compliance by meeting the benchmarks for the Ohio Alternative Energy Portfolio Standard for renewables in 2020. It is expected that AES Ohio will submit its Annual Compliance filing for 2021 in April 2022.

20) AES Ohio uses the "First-In, First-Out" or FIFO for REC inventory retirement purposes whereby the Company applies its older RECs first for compliance purposes. Each month, a portion of REC expense is recorded to the AEC regulatory asset based on the current Weighted Average Cost of Inventory ("WACI") and kWh sales. The RECs are retired through PJM-GATS at the end of the compliance year at which time they are removed from inventory and the REC retirement liability is reduced to reflect compliance.

21) For the June 1, 2020 through May 31, 2021 review period, the Company did not obtain RECs through a renewable purchased power agreement. Rather AES Ohio purchases RECs on the open market, but no such purchases occurred during the current review period as AES Ohio's compliance obligation was met with RECs purchased prior to June 1, 2020.

22) The Company forecasted its REC costs by multiplying its RPS compliance requirements by the weighted average in each month of the review period. The details of these calculations are shown on the WACI reports that were provided in response to LA-Audit2-1-15 and other responses.

23) The Company holds and uses all purchased RECs strictly for Ohio RPS compliance purposes. AES Ohio does not engage in trading (i.e., selling RECs that it had acquired for Ohio compliance). AES Ohio monitors market pricing and market interest through various brokers. The Company asserted that it would sell RECs if they could not be used for current or future compliance obligations. However, during the June 1, 2020 through May 31, 2021 review period, the Company chose not to sell any RECs because it believes that all RECs in inventory can be used for RPS compliance.

24) AES Ohio was never in a short position during the review period, thus it had sufficient RECs to meet RPS compliance requirements for each month of the review period. Specifically, this was accomplished this through a combination of purchases of non-solar and solar RECs throughout the prior review period of June 2016 through May 2020 (the bulk of which occurred in 2019). AES Ohio's REC deliveries either occurred in the year in which the contract was executed, or in subsequent years.

25) In its response to LA-Audit2-1-31, the Company provided an attachment in Excel, which showed the monthly positions of its solar and non-solar RECs for each month of the June 1, 2020 through May 31, 2021 review period. This Excel report was prepared using information from the WACI reports. This monthly position report, which is broken out between solar and non-solar, shows the Company's REC activity during each month of

the review period, including (1) the total volume of solar and non-solar RECs in inventory, (2) the volume of solar and non-solar RECs related to each year's compliance (i.e., retired RECs in PJM-GATS), (3) the monthly volume of solar and non-solar RECs used for compliance during the review period, and (4) the unused solar and non-solar RECs in inventory for future compliance.

26) Upon reviewing the monthly position report, Larkin noted that the Company was in a long position (i.e., held sufficient RECs to fully meet anticipated RPS compliance requirements) with respect to its solar and non-solar RECs during month of the June 1, 2020 through May 31, 2021 review period. The RECs retired for RPS compliance and the remaining REC inventory balances tied back to the Company's May 2021 WACI report. No exceptions were noted.

27) After reflecting the 2020 retirements of 211,255 RECs (191,654 non-solar and 19,601 solar), the monthly position report indicated that AES Ohio had 269,785 unused non-solar RECs and 18,928 unused solar RECs in inventory for future compliance for each month April and May 2021. The total amount of unused RECs was 288,713, which tied back to the WACI report as of May 31, 2021. AES Ohio's May 31, 2020 WACI report combined the non-solar and solar REC balances together into a single REC inventory.

28) The average price of the unused combined 288,713 solar and non-solar RECs was $6.71 ($1,937,858 / 288,713).

29) Other than purchasing RECs for RPS compliance purposes, the Company does not engage in any trading activities (i.e., based on market price fluctuations, it does not sell RECs that it purchased for RPS compliance). AES Ohio monitors market pricing and market interest through various brokers and would sell RECs if they could not be used for current or future obligations. AES Ohio chose not to sell any such RECs because all volumes in its REC inventory could be used for meeting future RPS obligations.

30) Since AES Ohio purchased its solar RECs prior to the enactment of HB 6, coupled with its plans to use all of its solar RECs for compliance, we do not find that AES Ohio's decision to hold solar RECs during June 2020 through May 2021 for compliance, rather than attempting to monetize them by selling them while the solar RECs commanded a significant market premium to non-solar RECs, was imprudent.

31) The Company forecasted its REC costs by multiplying its RPS compliance requirements by the weighted average in each month of the review period. The details of these calculations are shown on the WACI reports that were provided in response to LA-Audit2-1-15 and other responses.

32) During the period June 2020 through May 2021, the Company's inventory records reflected REC deliveries totaling 15,000 solar and non-solar RECs in March 2021 (i.e., 11,894 solar and 3,106 non-solar). The delivery of the 15,000 solar and non-solar RECs was from [redacted].

33) The Company did not own or operate any biomass generation facilities during the June 1, 2020 through May 31, 2021 review period.

34) The Company did not own or operate any biodiesel generation facilities during the June 1, 2020 through May 31, 2021 review period.

35) For 2020 Ohio renewables compliance, the Company retired 211,255 RECs, which was comprised of 191,654 non-solar RECs and 19,601 solar RECs in the PJM-GATS tracking system as well as the Company's monthly position report. The 211,255 retired RECs are also reflected in the Company's 2020 Annual Alternative Energy Portfolio Status Report that was filed on April 15, 2021.

36) For January through May 2021, the Company shows 98,930 RECs being applied to date for 2021 RPS compliance in its May 2021 WACI report.

37) Larkin tested AES Ohio's weighted average REC calculations from the WACI reports for the review period and tied the amounts to the general ledger detail included in the journal entry packets. No exceptions were noted.

38) The Company will submit its Annual Alternative Energy Portfolio Status Report showing REC RPS compliance requirements for 2021 Ohio renewables compliance in April 2022.

Management Audit Recommendations

1. The Company has developed the REC procurement strategy that was recommended in the EVA/Larkin 2015 audit of DP&L's AER. However, since the REC Guidelines document was developed and provided to Larkin on November 10, 2021 (per the supplemental response to LA-Audit2-1-51), insufficient time has passed in order to determine whether the guidelines contained therein have been implemented by AES Ohio and put into practice. Therefore, Larkin recommends that during the next audit of AES Ohio's AEC, the auditor conducting that audit review relevant documentation and make inquiries to determine whether the Company has in fact implemented the guidelines set forth in the REC Guidelines document.
2. The Company has provided documentation to address each of our six Management Recommendations from the Audit 1 review. However, since the previously discussed REC Guidelines and AER Memo documents were developed and provided to Larkin on November 10, 2021, insufficient time has passed in order to determine whether the guidelines and processes contained therein have been implemented by AES Ohio and put into practice. Therefore, Larkin recommends that during the next audit of AES Ohio's AEC , the auditor conducting that audit review relevant documentation and make inquiries to determine whether the Company has in fact implemented the guidelines set forth in the REC Guidelines and AER Memo documents.

Financial Audit Findings

1. Larkin reviewed AES Ohio's AEC annual SOR filings, which covered the forecast periods June 1, 2020 through May 31, 2021 (filed with the PUCO on April 30, 2020) and June 1, 2021 through May 31, 2022 (filed with the PUCO on May 25, 2021). Our review of the Company's May 25, 2021 SOR filing also included AES Ohio's calculations of the

reconciliation components that relate to its prior annual filing. Specifically, Larkin's review of AES Ohio's reconciliation calculations included verification to actual recorded results for each month of the June 1, 2020 through May 31, 2021 review period. No exceptions were noted.

2. For each month of the June 1, 2020 through May 31, 2021 review period, Larkin traced the monthly related revenues and expenses from the AEC reconciliation schedule (Schedule 3 in the annual SOR filings) to the general ledger detail and revenue reports from Oracle that were included in the Company's journal entry packets provided in response to LA-Audit2-1-5. No exceptions were noted.
3. For the period June 2020 through May 2021, AES Ohio reported total REC expense of $1,494,925 and overall compliance administrative expenses of [redacted]. The administrative expense consisted of PJM-GATS tracking system expenses totaling [redacted], audit fees totaling [redacted] and labor costs totaling [redacted]. See Finding 6 for additional information.
4. There were no broker fees included in the AEC costs since the Company did not purchase any solar or non-solar RECs during the June 1, 2020 through May 31, 2021 review period.
5. Larkin traced the PJM GATS tracking system fees to the related invoice, which was included in the December 2020 journal entry packet that was provided in the response to LA-Audit2-1-5. No exceptions were noted.
6. The audit fees totaling $45,026 were related to Larkin conducting Audit 1 of AES Ohio's AEC covering the period June 1, 2016 through May 31, 2020. Specifically, the amount traced back to two Larkin invoices totaling $24,613 and $20,413. No exceptions were noted.
7. With regard to the labor costs included in the compliance administrative expenses, the Company had included a portion of base labor costs in the AEC, which relates to the time spent on managing the REC program and meeting legal requirements. However, according to the response to LA-Audit2-2-1, starting in February 2021, base labor was no longer included in the AEC. This is because the employee that was responsible for REC procurements was transferred to a subsidiary of AES Corporation (AES Ohio s parent company) and the portion of labor attributable to this employee's REC procurement is not billed to AES Ohio.
8. We noted there were no compliance or administrative costs reflected for April and May 2021 in the Company's documentation. In response to our inquiry, AES Ohio confirmed there were no such costs during April or May 2021.
9. For the period June 2020 through May 2021, AES Ohio calculated AEC related carrying costs using a cost of debt of 4.80%, which was approved by the Commission in its Opinion and Order dated September 26, 2018 in Case No. 15-1830-EL-AIR. Larkin recalculated AES Ohio's AEC related carrying charges for each month of the June 1, 2020 through May 31, 2021 review period and traced the amounts to the general ledger. No exceptions were noted.

10. Pursuant to the passage of HB 6, which eliminated the separate requirement for Ohio solar RECs, during the period June 2020 through May 2021, the Company maintained a blended inventory of solar and non-solar RECs.
11. According to the response to LA-Audit2-1-10, AES Ohio does not have a REC inventory system to track its positions. Rather, the monthly journal entry packets (which includes the Company's WACI files), contain the REC inventory data for the review period. In addition, the REC balance is tied to PJM-GATS on a monthly basis as part of the journal entry process.
12. The Company reports the retirement of its RECs for Ohio RPS compliance through the PJM-GATS tracking system. The Company also uses the PJM GATS system for verifying inventory volumes.
13. AES Ohio considers RECs to be consumed based on monthly kWh sales, but the RECs remain in AES Ohio's inventory until they are retired in PJM-GATS for the annual compliance filings, which generally is in April of the following year (e.g., RECs consumed for 2020 RPS compliance were retired in PJM-GATS in April 2021, which corresponds with the annual RPS compliance filing, which was filed on April 15, 2021).
14. AES Ohio does not employ any non-standard accounting practices for adding to or removing RECs from inventory. The Company records RECs into inventory using the purchased costs. The Company records the AEC related REC inventory usage based on year-to-date kWh sales using the WACI, which are reflected on the Company's WACI reports. Larkin tested these calculations for the review period. No exceptions were noted.
15. The Company records costs during the year for retiring the solar and non-solar RECs for RPS compliance based on the year-to-date kWh sales using the WACI.
16. Larkin obtained copies of the Company's PJM-GATS tracking system reports in the response to LA-Audit2-1-50. For 2020, Larkin tied the RECs retired for Ohio compliance to the Company's Annual Alternative Energy Portfolio Status Report. No exceptions were noted.
17. AES Ohio will submit its Annual Alternative Portfolio Status Report for 2021 RPS compliance in April 2022.
18. AES Ohio did not record any impairment on its REC inventory during the review period, including its solar REC inventory, which was transferred into a combined REC inventory for RPS compliance pursuant to HB 6. AES Ohio's solar REC inventory now has a market value that is below its acquired cost. Not recording an impairment adjustment to recognize the decline in value of AES Ohio's solar REC inventory is appropriate as long as those RECs are being held for and will be used for RPS compliance. If decisions are made to sell solar RECs, a loss upon sale could be realized. If solar RECs were being held for sale (rather than for RPS compliance) that change in status could trigger an impairment analysis.

19. During Audit 1, Larkin had requested that AES Ohio provide detailed calculations that show how it derived the 3% cost cap for each year of the June 1, 2016 through May 31, 2020 review period. In its response to LA-Audit1-2-2 from Audit 1, the Company stated:

> DP&L does not keep records showing the calculation of the 3% Cost Cap. The rule determining the methodology setting the discretionary 3% cost cap was not effective until March 26, 2020, prior to that there was no requirement to calculate this. We have been and continue to be so far below the 3% cap based on the draft rule that we believe it is unnecessary to calculate and/or present these calculations in our annual updates.

    As part of our Audit 1 recommendations (which were adopted by the Commission in their entirety), Larkin recommended that AES Ohio include a description and illustrative calculation of the discretionary 3% cost cap in its monthly journal entry packets. In response to our follow-up inquiry, the Company provided a copy of its journal entry packet for July 2021. While this journal entry packet is outside the of the audit period for this review, we noted that the Company did include the 3% cost cap calculation pursuant to our recommendation. An illustration of the Company's 3% cost cap calculation is included in Chapter 4.

20. AES Ohio maintained a long position with its non-solar and solar RECs at the end of each month during the review period, thus having sufficient non-solar and solar RECs to meet RPS compliance requirements. The Company accomplished this by using non-solar and solar RECs that it purchased in periods prior to the June 1, 2020 through May 31, 2021 review period.
21. AES Ohio took delivery on 15,000 solar and non-solar RECs in March 2021 based on [redacted].
22. The 2020 and 2021 (through May) non-solar and solar REC inventory balances were blended in the WACI reports due to the enactment of HB 6, the passage of which no longer mandated a separate solar carve out for Ohio compliance. However, the Company still breaks out it solar and non-solar RECs in its monthly position report.
23. Larkin tested AES Ohio's weighted average REC calculations from the WACI reports in each month of the review period and tied the amounts to the general ledger detail included in the journal entry packets. No exceptions were noted.

Financial Audit Recommendations

1. The Company provided documentation to address each of our four Financial Recommendations from the Audit 1 review. However, since the aforementioned REC Guidelines and AER Memo documents were developed and provided to Larkin on November 10, 2021, there has not been sufficient time to determine whether the guidelines and processes contained therein have been implemented and put into practice. Therefore, with the exception of Audit 1 Financial Recommendation 3 (i.e., including the 3% cost cap calculation in AES Ohio's monthly journal entry packets going forward),

which the Company reflected in its July 2021 journal entry packet, Larkin recommends that during the next audit of AES Ohio's AEC, the auditor conducting that audit review relevant documentation and make inquiries to determine whether the Company has in fact implemented the guidelines and processes set forth in the REC Guidelines and AER Memo documents.

Audit Review

A draft of the audit report was provided to the Company for review. The auditors appreciated the Company's efforts and every issue raised by the Company was addressed. The Company in its comments noted that it did not verify every number in the report and reserved its rights regarding any future process with respect to the report. If additional issues concerning the report that have not been identified to date are subsequently raised by the Company, the auditors reserve the opportunity to respond.

Audit Outline

The outline of the remainder of this audit report is as follows:

- Section 2 AES Ohio Background
- Section 3 Management/Performance Audit of the AEC
- Section 4 Financial Audit of the AEC

2 AES OHIO BACKGROUND

Overview

AES Ohio, formerly Dayton Power and Light Company ("DP&L"), is a public utility and electric distribution utility as defined under R.C. 4905.02 and R.C. 4928.01, respectively. AES Ohio is the principal subsidiary of DPL, Inc. ("DPL") and an indirect subsidiary of AES Corporation. DPL is an energy holding company and subsidiary of AES Corporation. DPL's principal subsidiaries include AES Ohio and AES Ohio Generation, LLC, both of which operate in Ohio. Electric customers within Ohio are permitted to purchase power under contract from a CRES Provider or from their local utility under Standard Service Offer ("SSO") rates under an Electric Security Plan (“ESP”). The SSO generation supply is provided by third parties through a competitive bid process. Ohio utilities have the exclusive right to provide transmission and distribution services in their state certified territories.

AES Ohio is regulated by the PUCO for its distribution services and facilities, retail rates and charges, reliability of service, compliance with renewable energy portfolio requirements, energy efficiency program requirements, and certain other matters. The PUCO maintains jurisdiction over the delivery of electricity, SSO, and other retail electric services.

While Ohio allows customers to choose retail generation providers, AES Ohio is required to provide retail generation service at SSO rates to any customer that has not signed a contract with a CRES provider. SSO rates are subject to rules and regulations of the PUCO and are established through a competitive bid process for the supply of power to SSO customers. AES Ohio's distribution rates are regulated by the PUCO and are established through a traditional cost-based rate-setting process. AES Ohio is permitted to recover its costs of providing distribution service as well as earn a regulated rate of return on assets, determined by the regulator, based on the utility's allowed regulated asset base, capital structure and cost of capital. AES Ohio's rates include various adjustment mechanisms including, but not limited to, the timely recovery of costs incurred to comply with renewables, energy efficiency, and economic development costs. AES Ohio's wholesale transmission rates are regulated by the FERC.

AES Ohio is a member of PJM, a regional transmission organization (“RTO”) that operates the transmission systems owned by utilities operating in all or parts of Pennsylvania, New Jersey, Maryland, Delaware, D.C., Virginia, Ohio, West Virginia, Kentucky, North Carolina, Tennessee, Indiana and Illinois. PJM also runs the day-ahead and real-time energy markets, ancillary services market and forward capacity market for its members.

AES Ohio transmits, distributes and sells electricity to retail customers in a 6,000 square mile area of West Central Ohio, including the city of Dayton, Ohio, as shown below:

AES Ohio’s Service Area Map

AES Ohio's consumers have the right to choose the electric generation supplier from whom they purchase retail generation service; however, retail transmission and distribution services are still regulated. AES Ohio has the exclusive right to provide such transmission and distribution services to those customers.

In October 2017, AES Ohio transferred its interest in its coal-fired and certain other generating units to AES Ohio Generation. AES Ohio Generation, solely or through jointly-owned facilities, owns coal-fired and peaking generation units representing 2,125 MW located in Ohio and Indiana. AES Ohio Generation sells all of its energy and capacity into the wholesale market. In January 2017, Stuart Unit 1 failed and was retired. In March 2017 it was decided to retire the Stuart coal-fired and diesel-fired generating units and Killen coal-fired generating unit and combustion turbine on or before June 1, 2018. In December 2017, AES Ohio Generation sold its undivided interests in Zimmer and Miami Fort, and entered into an agreement to sell its 973 MW of peaking capacity.

3 MANAGEMENT/PERFORMANCE AUDIT OF THE AEC

Alternative Energy Portfolio Requirements

S.B. 221 included an Alternative Energy Portfolio Standard (R.C. 4928.64-65) which required 25 percent of all kilowatt hours of electricity sold by electric distribution utilities and electric services companies to retail electric consumers to be obtained from “alternative energy sources” by 2025. Alternative energy sources were defined as “advanced energy resources” and “renewable energy resources” that satisfy the applicable placed in-service requirement. The final Commission rules implementing the Alternative Energy Portfolio Standard were issued December 10, 2009. At least half of the alternative energy requirement must be satisfied from “renewable energy sources”, a specified portion of which must include solar.

The requirements were modified by S.B. 310 which was passed in May 2014 by the Ohio General Assembly. Pursuant to S.B. 310's passage, several provisions of the Ohio Revised Code, including those referenced above, were amended.[7] S.B. 310 did the following[8]:

- Froze for 2015 and 2016, the renewable and solar energy benchmarks (required of electric distribution utilities ("EDUs") and electric services companies ("ESCs") at the 2014 level required under prior law, and required the annual escalations to the benchmarks to resume in 2017 starting at the 2015 levels of prior law;
- Eliminated the option that EDUs and ESCs provide, by 2025, up to 12.5% of the former 25% alternative energy requirement from advanced energy;
- Extended the benchmark period by which EDUs and ESCs must provide 12.5% of their electricity supply from renewable energy resources by two years to 2027;
- Eliminated the requirement that at least one-half of the renewable energy resources implemented to meet the benchmarks must be met through facilities located in Ohio;
- Permits the renewable energy resources implemented to meet the benchmarks to be met either through facilities in Ohio or with resources shown to be deliverable into Ohio;
- Froze the solar energy compliance payment at $300 for 2014, 2015, and 2016 and resumed, in 2017, the gradual reduction of the payment amounts to a minimum of $50 in 2026 and thereafter;

[7]Prior to the passage of S.B. 310, the Ohio compliance requirement was referred to as Alternative Energy Portfolio Standard ("AEPS"). However, subsequent to the passage of S.B. 310, the Ohio compliance requirement was changed to the Renewable Portfolio Standard ("RPS").
[8]The bullet points listed are from the S.B. 310 Bill Analysis for renewable energy and advanced energy requirements.

- Required that recovery from customers of ongoing costs that are associated with EDUs' contracts to procure renewable energy resources, entered into before April 1, 2014, continue on a bypassable basis until the prudently incurred costs are fully recovered;
- Stated that renewable energy resources do not need to be converted to electricity in order to be eligible to receive RECs;
- Required that rules of the PUCO specify that for RECs, one megawatt hour of energy derived from biologically derived methane gas equals 3,412,142 British Thermal Units;
- Repealed the Alternative Energy Advisory Committee and its duty under prior law to study the alternative energy resources requirements and to submit a semiannual report to the PUCO;
- Permitted EDUs and ESCs to use a baseline of the compliance-year's sales to measure compliance with the renewable energy benchmarks, rather than the most recent three-year average of sales; and
- Required EDUs and ESCs that switch back to the three-year baseline to use that baseline for at least three consecutive years before again using the compliance year baseline.

The percentages required by year are provided in Exhibit 3-1 below.

Exhibit 3-1. Renewable Energy Benchmark Requirements as Amended by S.B. 310

Year	Renewable Energy	Minimum Solar
2009	0.25%	0.00%
2010	0.50%	0.01%
2011	1.00%	0.03%
2012	1.50%	0.06%
2013	2.00%	0.09%
2014	2.50%	0.12%
2015	3.50%	0.15%
2016	4.50%	0.18%
2017	5.50%	0.22%
2018	6.50%	0.26%
2019	7.50%	0.30%
2020	8.50%	0.34%
2021	9.50%	0.38%
2022	10.50%	0.42%
2023	11.50%	0.46%
2024	12.50%	0.50%
2025	12.50%	0.50%
2026	12.50%	0.50%

The benchmarks as amended by S.B. 310 were in place until the passage of House Bill 6 (see additional discussion below).

To ensure compliance with the RPS, utilities are required to file an annual report which details their performance. If the utility has failed to meet its requirements in any year and such under-compliance is deemed to have been avoidable, the utility will be assessed a monetary penalty referred to as the "alternative compliance payment" ("ACP"). The non-solar ACP was initially set at $45 per MWh and is adjusted annually by the PUCO according to changes in the Consumer Price Index. The solar ACP was initially set at $450 per MWh and is reduced by $50 every two years until it hits $50 per MWh in 2024.[9] ACPs are deposited into the Ohio Advanced Energy Fund which provides funding for renewable and energy efficient projects within the state.

Utilities can obtain relief from certain requirements and avoid paying the ACP if it demonstrates that compliance with the portfolio standard is "reasonably expected" to increase generating costs by three percent or more. In addition, a utility can obtain relief through the force majeure provisions which state that the PUCO has the ability to waive compliance if the utility can demonstrate that sufficient renewable energy products were not reasonably available in the market place.

2016 Substitute House Bill 554

On May 19, 2016, legislation was introduced to the Ohio General Assembly to revise the requirements for renewable energy, energy efficiency, and peak demand reduction.

On December 27, 2016, Ohio Governor John Kasich vetoed SHB 554 in its entirety.

Because of the timing of the veto of Substitute HB 554, this did not affect AES Ohio's decision to purchase compliance RECs in 2016 however, other legislation was subsequently introduced which created uncertainty, as described below.

2017 House Bill 114 and Substitute House Bill 114

In March 2017 the Ohio House introduced legislation HB 114. Among other RPS-related issues, the bill proposed the following:

> Eliminates the renewable energy mandate. Utilities and CRES providers **may** provide up to 12.5% of generation service from qualifying renewable sources, subject to a 3% cost cap (comparison to costs of other forms of generation). Provides an opt-out for all customers, thereby burdening utilities with the risk of non-recovery of costs for any renewable generation supply.

Substitute version of HB 114 (originally passed in March 2017) was accepted by the Senate Energy & Natural Resources Committee in mid-May 2018 and remained there throughout the rest of the year. Benchmarks must be mandatory for an indefinite time, but changes the benchmark percentages to stop increasing after 2022 when the overall requirement reaches 8.5% and the solar requirement reaches 0.34%. Current law includes stair-step increases through 2016, increasing to a total requirement of 12.5%.

[9] As noted above, with the passage of S.B. 310, the solar ACP was frozen at $300 for 2014, 2015, and 2016. Starting in 2017, the reduction of the solar ACP is to resume with the gradual reduction in payment amounts leveling off at $50 in 2026 and thereafter. However, with the passage of HB 6 on July 23, 2019, the solar-specific requirement was eliminated after 2019.

As noted above, in late December 2016, Governor Kasich vetoed a bill that would have made renewable energy voluntary, thus illustrating the legislative uncertainty that existed during this time period.

House Bill 6

On July 23, 2019, Governor DeWine signed into law Amended Sub House Bill 6 ("HB 6"), which became effective on October 22, 2019.

The following are some examples of how this legislation altered the RPS:

1. It terminates the RPS program following the 2026 compliance year.
2. It alters (reduces) the annual benchmarks beginning with 2020, including the elimination of the solar carve-out.
3. It calls for a baseline reduction, if the company served any self-assessing purchasers.
4. It calls for proportional reductions to the overall obligations, based on output from specific utility-scale solar projects.
5. These legislative changes would appear to impact AES Ohio's planning of REC purchases and the Company's REC inventory strategy and purchases particularly for RECs to meet compliance requirements in the 2020 through 2026 period.

The percentages required by year are provided on Exhibit 3-2 below:

Exhibit 3-2. Renewable Energy Benchmark Requirements as Modified by HB 6

Year	Renewable Energy	Minimum Solar
2009	0.25%	0.004%
2010	0.50%	0.010%
2011	1.00%	0.030%
2012	1.50%	0.060%
2013	2.00%	0.090%
2014	2.50%	0.12%
2015	2.50%	0.12%
2016	2.50%	0.12%
2017	3.50%	0.15%
2018	4.50%	0.18%
2019	5.50%	0.22%
2020	5.50%	0.0%
2021	6.00%	0.0%
2022	6.50%	0.0%
2023	7.00%	0.0%
2024	7.50%	0.0%
2025	8.00%	0.0%
2026	8.50%	0.0%

Legislation to repeal HB 6 was proposed during 2020 including (1) HB 738, which was introduced on July 29, 2020, (2) HB 746, which was introduced on August 6, 2020, and (3) HB 772, which was introduced on September 30, 2020. In its response to LA-Audit2-1-53, AES

Ohio stated that the referenced legislation had been proposed in the 133rd assembly session which ended. Therefore, the proposed legislation to repeal HB 6 in its entirety will not be moving forward. This issue is discussed in more detail in a later section of this report.

Changes to AES Ohio's Alternative Energy Rider

We requested that AES Ohio state whether there were any changes to the AEC during the period June 1, 2020 through May 31, 2021, and if so, to describe each change. In its response to LA-Audit2-1-1, the Company stated that no changes occurred during the review period. As was discussed in our Audit 1 report, the Company began filing its AEC on an annual basis as part of its Standard Offer Rate ("SOR") starting in November 2017. AES Ohio stated that the reason for switching to an annual AEC filing was due to the Commission adopting the modified stipulation in the Company's third ESP[10] which included AES Ohio's proposal to recover its reasonable costs of complying with the RPS as a component of the SOR instead of as a separate AER tariff.

AES Ohio Scope and Objectives

To accomplish the review of AES Ohio's AEC for the period June 1, 2020 through May 31, 2021, the audit RFP guidelines provide that the management audit shall include the following items:

1) A review of the Company's RPS compliance planning activities during the audit period, including the schedule and process for evaluating compliance options;
2) A review of the REC and S-REC transactions entered into by the Company during the audit period, with an assessment as to the reasonableness of the transactions;
3) An assessment of the applicable REC and S-REC markets during the audit period;
4) A review of the Company's compliance with recommendations from the prior audit, if applicable; and
5) A review of any other specific items as identified by the Commission or Staff.

Each of these items is discussed in the sections below.

1) A Review of the Company's RPS Compliance Planning Activities during the Audit Period, Including the Schedule and Process for Evaluating Compliance Options

Larkin requested that AES Ohio provide a summary and details of its status regarding its renewable energy objectives and minimum requirements for the June 1, 2020 through May 31, 2021 review period and to explain whether there was any shortfall in achieving the minimum requirements. We also asked AES Ohio to identify and provide copies of any waivers obtained with respect to meeting its renewable energy objectives for the review period. In its response to LA-Audit2-1-38, the Company stated that it did not have a shortfall during the review period nor

[10] The Company withdrew its ESP III in November 2019, but opted to retain the AEC in its SOR.

were there any waivers. In addition, AES Ohio does not currently have set objectives or minimums regarding renewable energy for RPS compliance.

With regard to HB 6, we asked AES Ohio if the passage of HB 6 will have any impact on whether the solar and non-solar RECs in the Company's REC inventory was or will be needed to meet the renewable portfolio standard in 2020 or beyond. In response to LA-Audit2-1-52, the Company stated that the passage of HB 6 did not render any volumes of its solar or non-solar RECs in inventory as excess.

REC Procurement Strategy and REC Purchases

AES Ohio stated that its objective is to procure the necessary non-solar RECs and solar RECs to meet the Company's RPS requirements.

It appears to Larkin that AES Ohio's REC inventory management and REC acquisition policy is to maintain a minimal bank (i.e., REC inventory balance) and to purchase RECs either in the year of compliance or one year in advance of their RPS compliance requirements. As a result, the Company's ending REC inventory for the review period consisted of 269,785 non-solar RECs and 18,928 solar RECs. In addition, the Company did not enter into contracts with multiple year streams of deliveries. As discussed in more detail below, the Company's REC obligations during the June 1, 2020 through May 31, 2021 review period were fulfilled by solar and non-solar REC volumes that were purchased prior to the June 1, 2020 through May 31, 2021 review period.[11]

The Company did not have any biomass nor biodiesel related activities during the June 1, 2020 through May 31, 2021 review period.[12] In addition, AES Ohio did not have any self-generated RECs nor were there any renewable power purchases during the review period.[13]

In order to obtain a better understanding of the Company's procurement strategy, during Audit 1, Larkin had asked whether AES Ohio maintains a written record (e.g., meeting minutes and supporting documentation) which memorializes all departmental meetings and/or conference calls related to discussions held and decisions made pertaining to things such as Ohio legislation (current or proposed) and prevailing market conditions as it relates to the purchase of non-solar and solar RECs needed for RPS compliance. In its response to LA-Audit-1-51 during Audit 1, the Company stated that it does not maintain written records such as those we requested because it would be voluminous and unduly burdensome to develop and maintain such records.

In Larkin's view, a written record (e.g., meeting minutes) of the Company's meetings related to market monitoring and REC purchase and inventory management decisions should be maintained. Therefore, one of Larkin's Audit 1 recommendations was that going forward, AES Ohio maintain a written record which memorializes departmental meetings and/or conference calls in which discussions are held and decisions are made pertaining to things such as Ohio legislation (current and/or proposed) and prevailing market conditions as it relates to the purchase of solar and non-solar RECs for Ohio renewable compliance. As previously discussed,

[11] See the responses to LA-Audit2-1-23 and LA-Audit2-1-24.
[12] See the responses to LA-Audit2-1-34 and LA-Audit2-1-35.
[13] See the responses to LA-Audit2-1-36 and LA-Audit2-1-37.

in its Finding and Order dated June 16, 2021, the Commission adopted Larkin's Audit 1 recommendations in their entirety. However, in its response to LA-Audit2-1-51, the Company stated that it had not yet had time to implement the approved recommendations at the time it provided this response (i.e., June 3, 2021). As noted above, during the October 15, 2021 Microsoft Teams meeting, AES Ohio stated that it was in the process of developing internal policies with respect to Larkin's Audit 1 recommendations and would supplement the response to LA-Audit2-1-51 once completed.

In its supplemental response to LA-Audit2-1-51, which was provided on November 10, 2021, the Company provided a document titled "AES Ohio Renewable Energy Credit Guidelines for Ohio RPS Compliance" ("REC Guidelines"). In a section of the REC Guidelines titled "Transaction Execution", it states that a written record (e.g., meeting minutes) of the Company's meetings related to market monitoring and REC purchase and inventory management decisions should be maintained. It should also be noted that as of the date of this report, AES Ohio has not provided any meeting minutes. In addition, another document titled "AES Ohio AER REC Legislation Memo" ("AER Memo") states that the Company will hold a Microsoft Teams meeting once a month in order to discuss any and all relevant changes in the REC markets and legislation.

Based on the foregoing, it appears that AES Ohio has developed a process whereby it will maintain a written record which memorializes departmental meetings and/or conference calls in which discussions are held and decisions are made pertaining to Ohio legislation and prevailing market conditions for Ohio RPS compliance. However, since the REC Guidelines and AER Memo were developed and provided to Larkin on November 10, 2021, there has not been sufficient time to determine whether the processes described in those documents have been implemented and put into practice. Therefore, Larkin recommends that during the next audit of AES Ohio's AEC, the auditor conducting that audit review relevant documentation and make inquiries to determine whether the Company has in fact implemented the processes set forth in the REC Guidelines and the AER Memo pursuant to Management Recommendation 2 from our Audit 1 report.

Audit Period Compliance

According to the Company's Annual Compliance Plan Status Reports for the year 2020, AES Ohio achieved compliance by meeting the benchmarks for the Ohio RPS as discussed below.

Annual Alternative Energy Portfolio Status - 2020

AES Ohio provided its Annual Alternative Energy Portfolio Status Report for 2020 that was filed with the PUCO on April 15, 2021 in its response to LA-Audit2-1-2. The Company's 2020 compliance report stated that AES Ohio achieved compliance by meeting the 2020 Renewable Benchmark.

Pursuant to O.R.C. § 4928.643, AES Ohio's 2020 Baseline Sales level was calculated using the Company's standard offer sales that occurred during 2020. In addition, the Company did not seek compliance relief related to its 2020 RPS compliance obligations under the 3% cost provision in O.R.C. § 4928.64(C)(3). Furthermore, the Company asserted that it does not perceive any impediments to achieving compliance with required benchmarks as forth in O.R.C. § 4928.64(B)(2).

The Company's 2020 renewable requirement and compliance is summarized in the following exhibit:

Exhibit 3-3. 2020 Renewables Compliance Summary

Line	(A) Description	(B) MWh Sales
1	Baseline (2020 Sales)	3,840,994
2	<u>2020 Statutory Compliance Obligation</u>	
3	2020 Total Renewable Benchmark	5.50%
4	<u>2020 Compliance Obligation</u>	
5	RECs/S- RECs Needed for Compliance	211,255
6	2020 Retirements (Per PJM-GATS Data)	211,255
7	<u>Under Compliance in 2020, if applicable</u>	
8	RECs/S-RECs	-
9	<u>2020 Alternative Compliance Payments</u>	
10	Per REC (Case No. 20-0163-EL-ACP)	$ 53.49
11	2020 Payments, if applicable	$ -

As shown in the above Exhibit, AES Ohio asserts that it met its 2020 RPS compliance obligation with 211,255 solar and non-solar RECs. AES Ohio calculated its 2020 renewable obligation by multiplying its compliance year megawatt-hours of 3,840,994 by the renewable benchmark of 5.50%.

In its response to LA-Audit2-1-50, AES Ohio provided a copy of the PJM-GATS tracking system report, which provides the detail for the retirement of the solar and non-solar RECs associated with Ohio renewable compliance for 2020. The PJM-GATS report for 2020 provides a breakout of the non-solar and solar RECs, including certificate serial numbers, which ties out to the 211,255 RECs that were needed for AES Ohio's 2020 compliance obligation as reported in the Company's annual alternative portfolio status report that was filed on April 15, 2021. Specifically, the breakout from the PJM-GATS report included 191,654 non-solar RECs and 19,601 solar RECs which totaled the 211,255 RECs. No exceptions were noted.

2) A Review of the REC and S-REC Transactions Entered into by the Company during the Audit Period, with an Assessment as to the Reasonableness of the Transactions

RECs purchased by AES Ohio are generally usable within a five-year period. Any RECs held by AES Ohio at the end of a given year that are in excess of that year's Benchmarks will be applied to future year benchmarks. AES Ohio uses the "First-In, First-Out" or FIFO for REC inventory retirement purposes whereby the Company applies its older RECs first for compliance purposes.

Each month, a portion of REC expense is recorded to the AEC regulatory asset based on the current WACI and kWh sales, but the RECs are not retired through PJM-GATS until the end of the compliance year at which time they are considered consumed and removed from inventory when they are surrendered as part of the annual requirement obligation.[14]

AES Ohio was never in a short position during the review period, thus it had sufficient non-solar and solar RECs to meet RPS compliance requirements for 2020. Specifically, the Company's compliance obligation was fulfilled with non-solar and solar RECs that were purchased prior to the June 1, 2020 through May 31, 2021 review period. Our review of the Company's REC purchases during Audit 1 (i.e., the period June 1, 2016 through May 31, 2020) indicated that the Company did not enter into contracts with multiple year streams of deliveries. AES Ohio's REC deliveries either occurred in the year in which the contract was executed, or in subsequent years.

In order to determine whether AES Ohio had adequate solar and non-solar RECs to be in compliance during June 1, 2020 through May 31, 2021 review period, Larkin requested that AES Ohio provide the detail of its monthly positions for each month of the review period. In its response to LA-Audit2-1-31, the Company provided an attachment in Excel, which showed the monthly positions of its solar and non-solar RECs for the period January 2020 through June 2021 (which included each month of the review period). During the Microsoft Teams meeting on October 15, 2021, the Company stated that this Excel report was prepared using information from the WACI reports previously discussed. Specifically, the monthly positions report, which is broken out between solar and non-solar (despite the passage of HB 6), shows the Company's REC activity during each month of the review period, including (1) the total volume of solar and non-solar RECs in inventory, (2) the volume of solar and non-solar RECs related to each year's compliance (i.e., retired RECs in PJM-GATS), (3) the monthly volume of solar and non-solar RECs used for compliance during the review period, and (4) the unused solar and non-solar RECs in inventory for future compliance.

Upon reviewing the monthly position report, Larkin noted that the Company was in a long position (i.e., held sufficient RECs to fully meet anticipated RPS compliance requirements) with respect to its solar and non-solar RECs during each month of the June 1, 2020 through May 31, 2021 review period. This was accomplished with non-solar and solar RECs that were purchased prior to the June 1, 2020 through May 31, 2021 review period. However, it should be noted that AES Ohio took delivery of 15,000 solar and non-solar RECs in March 2021 [redacted] We tied this transaction back to AES Ohio's May 2021 WACI report that was provided in response to LA-Audit2-1-15.[15] In addition, in its supplemental response to LA-Audit2-1-31, the Company provided a breakout of the 15,000 RECs received in March 2021, which reflected 11,894 solar RECs and 3,106 non-solar RECs.

As for having enough RECs in inventory for future compliance, during the October 15, 2021 Teams meeting, the Company stated that it will likely [redacted], at which point AES Ohio should have a better idea of how many RECs it will need for compliance going forward.

[14] See the response to LA-Audit2-1-13(e).
[15] The transaction for the 15,000 RECs is also shown on the WACI reports for March and April 2021.

The retired RECs and inventory balances tied back to the Company's WACI reports. In addition, Larkin tied the solar and non-solar REC retirements listed in the monthly position report back to the PJM-GATS REC retirement reports that were provided in response to LA-Audit2-1-50. No exceptions were noted.

As part of our recommendations in Audit 1, Larkin had recommended that AES Ohio continue to prepare the position report that was provided in response to LA-Audit2-1-31 every month as part of its permanent records to ensure that it has adequate RECs in inventory to be in compliance with Ohio renewable requirements. As discussed in Chapter 1, AES Ohio supplemented its response to LA-Audit2-1-51 to include new internal policies that were developed pursuant to the Commission adopting Larkin's Audit 1 recommendations in their entirety. In the section of the aforementioned REC Guidelines titled "Position Reporting", it states the following:

> Commercial personnel will maintain a current position report that details both its expected requirement and current inventory of renewable energy credits. The position report will include at a minimum:
>
> - Projected RPS requirement – based upon actual monthly sales volumes as reported by AES Ohio regulatory. Future years' RPS requirement will be based upon the baseline compliance obligation for the previous year as detailed in the annual RPS compliance status report unless it is determined that current market conditions dictate a shift in projected future year sales. AES Ohio will document any changes made to its methodology.
> - Current REC inventory – all current inventories currently held in the AES Ohio account under the PJM Generation Attribute Tracking System (GATS). Total volumes will be broken out into both Non-Solar and Solar based upon the generator type.
> - Transaction Log – details on all transactions executed. This will provide audit tracking and accounting validation.
> - Market Pricing – based upon actual market quotes from third parties or from authorized brokerage companies.
>
> In addition, the position report will be maintained monthly and provided to all necessary personnel on a quarterly basis at a minimum. Commercial personnel will provide an updated position report along with any relevant market information or necessary documentation to regulatory and accounting personnel.

Based on the foregoing, it appears to Larkin that AES Ohio has complied with our recommendation to prepare the position report on a monthly basis.

After reflecting the 2020 retirements of 211,255 RECs (191,654 non-solar and 19,601 solar), the monthly position report indicated 288,713 (269,785 non-solar and 18,928 solar) RECs left in inventory for future compliance as of April 1, 2021. The total amount of 288,713 unused RECs tied back to the WACI report as of May 31, 2021 that was provided as Confidential Attachment 2 to the response to LA-Audit2-1-15. It should be noted that the remaining 288,713 RECs includes the aforementioned 15,000 RECs that AES Ohio purchased in 2019, but took delivery on in March 2021. Due to enactment of HB 6, the May 31, 2021 WACI report combined the non-solar and solar REC balances together.[16]

Using the inventory detail from the PJM-GATS report, the Company calculated an average price of its unused combined non-solar RECs and solar RECs as shown in the exhibit below:

Exhibit 3-4. Average Price Per REC of Unused Non-Solar and Solar RECs as of May 31, 2021

Description	Total Volume in Inventory	Total Cost	Avg Cost
Total Solar and Non-Solar REC Inventory as of 5/31/2021	288,713	$ 1,937,858	$ 6.71
Source: LA-Audit2-1-15, Attachment 2			

As shown in the exhibit, the average price of the unused combined solar and non-solar RECs was $6.71. Larkin asked AES Ohio whether it was presented with any opportunities to sell non-solar or solar RECs during any portion of the June 1, 2020 through May 31, 2021 review period. In its response to LA-Audit2-1-47, the Company stated:

> The Company does not engage in any speculative trading activities under this account. We do monitor market pricing and market interest through various brokers and would sell volumes if they could not be used for current or future obligations. During this time period there were various opportunities, but we chose not to sell any volumes because all volumes in inventory could be used for obligations.

As discussed in our Audit 1 report, proposed legislation to repeal HB 6 was introduced during 2020 in the Ohio legislature. Specifically, HB 738 was introduced on July 29, 2020, HB 746 was introduced on August 6, 2020, and HB 772 was introduced on September 30, 2020. Larkin had recommended that AES Ohio monitor the status of this proposed legislation, since, had it passed and HB 6 was repealed, the RPS standards would likely have changed as it relates to the carve-out of solar RECs. However, in its response to LA-Audit2-1-53, the Company stated that the proposed legislation was proposed in the 133rd assembly session, which has since ended with no changes being made with regard to HB 6. Therefore, the legislation to repeal HB 6 in its entirety will not be moving forward. As it relates to selling a portion or all of its excess solar RECs, we asked whether AES Ohio has conducted discussions related to ascertaining the value and eligibility of the Company were to sell its remaining solar REC inventory. In response to LA-Audit2-1-53, the Company stated:

> AES Ohio continues to monitor market pricing for solar RECs. After discussions related to the eligibility of its current solar REC inventory it was determined that eligibility was limited to the Ohio markets. Based upon current pricing levels for Ohio eligible solar RECs, AES Ohio will continue to retain all inventories.

[16] The REC inventories were combined as of January 1, 2020 pursuant to the enactment of HB 6.

The Company stated that it does not have any written documentation related to the discussions about the potential repeal of HB 6 and/or the possible disposition of its excess solar REC inventory. As noted in the passage above, the Company is retaining its remaining solar RECs to satisfy future obligations under the current Ohio RPS, but would evaluate the status of any solar REC volumes as a result of legislative changes relating to Ohio RPS or market conditions.

We had asked the Company whether it has a plan for the possibility that the Ohio RPS requirements could be altered or eliminated by the state legislature. In its response to LA-Audit2-1-58, AES Ohio stated that it does not currently have any plan in place for the possibility of legislative changes to the current RPS requirement since it is required to comply with the law as it currently exists. Therefore, AES Ohio's position is to actively monitor any proposed changes in legislation and identify what changes could be needed, but to not alter its current processes until any legislative changes are ratified.

Audit Period Purchases

According to the responses to LA-Audit2-1-23 and LA-Audit2-1-24, the Company's REC compliance obligations were fulfilled by market purchases of REC volumes during June 1, 2016 through May 31, 2020 review period. Similar to the Audit 1 review period, the Company confirmed that had RECs been purchased during the June 1, 2020 through May 31, 2021 review period, such RECs would have been entered into inventory using the purchased cost and recorded to the AEC regulatory asset and retirement liability based on year-to-date kWh sales using the WACI.[17] As noted above, AES Ohio took delivery of 15,000 solar and non-solar RECs in March 2021 [redacted].

In its response to LA-Audit2-1-15, the Company provided two WACI reports, which include the solar and non-solar REC quantities and purchase costs for the calendar year ending December 31, 2020 as well as for the period ending May 31, 2021. The WACI report for December 31, 2020 is broken out by (1) balance at January 1, 2020 (minus the 2019 retirement) (2) the REC purchases made between 2020 through March 2020, and (3) the solar and non-solar REC balances as of December 31, 2020. This WACI report indicates a combined solar and non-solar balance of 484,968 RECs at a cost of $3,276,597 for a weighted average cost of inventory of $6.76.

It should be noted that this is the same information shown on the WACI report from May 2020 from the Audit 1 review period, and which supports AES Ohio's statement that it did not execute any REC purchases during the period June through December 31, 2020. The December 2020 WACI report also reflects the retirement of the 211,255 RECs in April 2021 that were used for compliance in 2020, which left a remaining balance of 273,713 blended solar and non-solar RECs at a cost of $1,849,358 and a WACI of $6.76 per REC. The WACI report for May 31, 2021 starts with the REC balance as of January 1, 2021 (i.e., the 273,713 RECs with a WACI of $6.76 per REC). In addition, the May 2021 WACI report includes the aforementioned 15,000 RECs that AES Ohio took delivery on in March 2021, [redacted] These additional RECs brought the Company's blended balance to 288,713 RECs as of May 31, 2021 at a total cost of $1,937,858

[17] See the response to LA-Audit2-2-1.

and a WACI of $6.71 and which ties to the amounts shown in Exhibit 3-4 above. The ending inventory balance of 288,713 RECs as of May 31, 2021 ties to the monthly position report discussed above that was provided in the response to LA-Audit2-1-31. No exceptions were noted.

With regard to how the Company valued its non-solar and solar RECs inventory during the June 1, 2020 through May 31, 2021 review period, the Company stated that it does not employ any non-standard accounting practices for entries or removal of REC into inventory and that purchased RECs are entered into inventory at cost along with any associated broker fees, if applicable.[18] According to the response to LA-Audit2-1-13(d), there were no RECs purchased as part of bundled energy transactions during the review period.

[18] AES Ohio's REC inventory is discussed in further detail in Chapter 4 of this report.

3) An Assessment of the Applicable Solar and Non-Solar REC Markets During the Audit Period

The Company stated that there is typically a difference between the transaction dates of its REC purchases and the date when such REC purchases are delivered and/or invoiced. Larkin requested that AES Ohio provide a listing of the third-party suppliers from which it purchased solar and non-solar RECs during the June 1, 2020 through May 31, 2021 review period. In addition, we requested copies of the related invoices and whether those third-party suppliers are Green-e certified. In response to LA-Audit2-1-54, the Company provided a confidential attachment with separate tabs listing the third-party suppliers that AES Ohio transacted with for solar and non-solar RECs (and whether they are Green-e certified) during each year of the Audit 1 review period (i.e., June 1, 2016 through May 31, 2020).

Since the Company did not purchase any solar or non-solar RECs during the June 1, 2020 through May 31, 2021 review period (as discussed above), we requested that AES Ohio provide a reconciliation of the solar and non-solar REC purchases (quantities and price per REC) that were used for compliance purposes for the Audit 2 review period. In response to LA-Audit2-3-1, the Company provided the list of third-party suppliers from which AES Ohio purchased solar and non-solar RECs during calendar year 2019 (as provided in LA-Audit2-1-54), which is replicated in the exhibit below:

Exhibit 3-5. Listing of Third Parties from which AES Ohio Purchased Solar and Non-Solar RECs during calendar year 2019

[redacted]

The confidential attachment provided in the response to LA-Audit2-1-54 states that this list includes any counterparty that AES Ohio transacted with during calendar year 2019 and that the RECs are not based upon vintages purchased.

With regard to the requested reconciliation referenced above, using the 2019 third-party and the PJM-GATS report that reflects the 2020 compliance year retirements totaling 211,255 RECs, the Company provided the following reconciliation of 2019 third-party suppliers to the solar and non-solar RECs retired for 2020 RPS compliance purposes:

Exhibit 3-6. Reconciliation of Solar and Non-Solar RECs Purchased from 2019 Third-Party Suppliers to RECs Retired for 2020 Ohio Compliance

[redacted]

As shown in the above exhibit, the 191,654 non-solar RECs retired in 2020 for RPS compliance were purchased in 2019 at the prices shown from the three counterparties listed above and the 19,601 solar RECs retired for 2020 RPS compliance were purchased in 2019 at the prices shown from the eight counterparties listed. It should be noted that AES Ohio's 2019 solar purchases were executed prior to or in May 2019, which was prior to effective date of HB 6, which was October 22, 2019. Upon HB 6 being enacted into law, the price of solar RECs decreased substantially since there was no longer a requirement in Ohio to retire solar RECs in order to be in RPS compliance.

Had AES Ohio purchased non-solar RECs during the period June 1, 2020 through May 31, 2021, the exhibit below shows the weekly market prices for non-solar RECs that were compiled by Platts Megawatt Daily[19] for the period June 1, 2020 through May 31, 2021.

Exhibit 3-7. Non-Solar REC Market Prices During the June 1, 2020 Through May 31, 2021 Review Period

Description	6/4/2020	6/11/2020	6/18/2020	6/25/2020	7/2/2020	7/9/2020	7/16/2020	7/23/2020	7/30/2020	8/6/2020	8/13/2020	8/20/2020	8/27/2020
Ohio Non-Solar Price Per REC	$ 9.25	$ 9.25	$ 9.25	$ 9.25	$ 9.00	$ 8.75	$ 8.50	$ 8.50	$ 8.50	$ 8.50	$ 8.50	$ 8.50	$ 8.50
	9/3/2020	**9/10/2020**	**9/17/2020**	**9/24/2020**	**10/1/2020**	**10/8/2020**	**10/15/2020**	**10/22/2020**	**10/29/2020**	**11/5/2020**	**11/12/2020**	**11/19/2020**	**11/26/2020**
Ohio Non-Solar Price Per REC	$ 8.75	$ 9.00	$ 9.00	$ 9.00	$ 9.00	$ 9.00	$ 9.25	$ 9.75	$ 9.75	$ 10.00	$ 10.00	$ 10.25	$ 10.25
	12/3/2020	**12/10/2020**	**12/17/2020**	**12/24/2020**	**12/31/2020**	**1/7/2021**	**1/14/2021**	**1/21/2021**	**1/28/2021**	**2/4/2021**	**2/11/2021**	**2/18/2021**	**2/25/2021**
Ohio Non-Solar Price Per REC	$ 10.50	$ 10.50	$ 10.50	$ 10.50	$ 10.50	$ 10.50	$ 10.50	$ 10.50	$ 10.50	$ 10.50	$ 10.00	$ 10.00	$ 9.75
	3/4/2021	**3/11/2021**	**3/18/2021**	**3/25/2021**	**4/1/2021**	**4/8/2021**	**4/15/2021**	**4/22/2021**	**4/29/2021**	**5/6/2021**	**5/13/2021**	**5/20/2021**	**5/27/2021**
Ohio Non-Solar Price Per REC	$ 9.75	$ 11.50	$ 13.75	$ 13.75	$ 13.75	$ 13.50	$ 11.00	$ 8.25	$ 7.75	$ 6.50	$ 6.50	$ 6.75	$ 6.75
Source: Platts Megawatts Daily													

As shown in the above exhibit, the weekly market prices for Ohio non-solar RECs fluctuated between $6.50 per REC to $13.75 per REC during the review period, with the lowest REC price of $6.50 occurring during the week of May 6, 2021 and the highest REC price of $13.75 occurring during the week of April 1, 2021.

In the past, the Platts Megawatts Daily REC price data has been shown at the low end, high end and mid-point (i.e., market price average). However, for each week of the review period, the weekly Ohio non-solar prices per REC did not fluctuate in the manner described (e.g., for the week of June 4, 2020, the low end, high end and thus the market price average, was $9.25 per non-solar REC). Therefore, each week of the review period in the above exhibit reflects the market price average per non-solar REC.

We were advised by a representative at Platts Megawatts Daily that their practice of publishing the same high, low and close (i.e., mid-point) value began on October 24, 2019 due to a lack of trade information. However, the Platts Megawatts Daily representative advised that the organization is currently undergoing a review of its current methodology, and that effective January 1, 2022, Platts Megawatts Daily expects to again begin publishing a different weekly high and low as well as the close value.

Had AES Ohio purchased solar RECs during the period June 1, 2020 through May 31, 2021, the exhibit below shows the weekly market prices for solar RECs that were compiled by Platts Megawatt Daily for the period June 1, 2020 through May 31, 2021.

[19] Platts Megawatt Daily provides the North American power market's leading source of daily news and price information including 34 daily on-peak indexes, 29 daily off-peak indexes, spark spreads, daily market commentary and generation unit outages.

Exhibit 3-8. Solar REC Market Prices During the June 1, 2020 Through May 31, 2021 Review Period

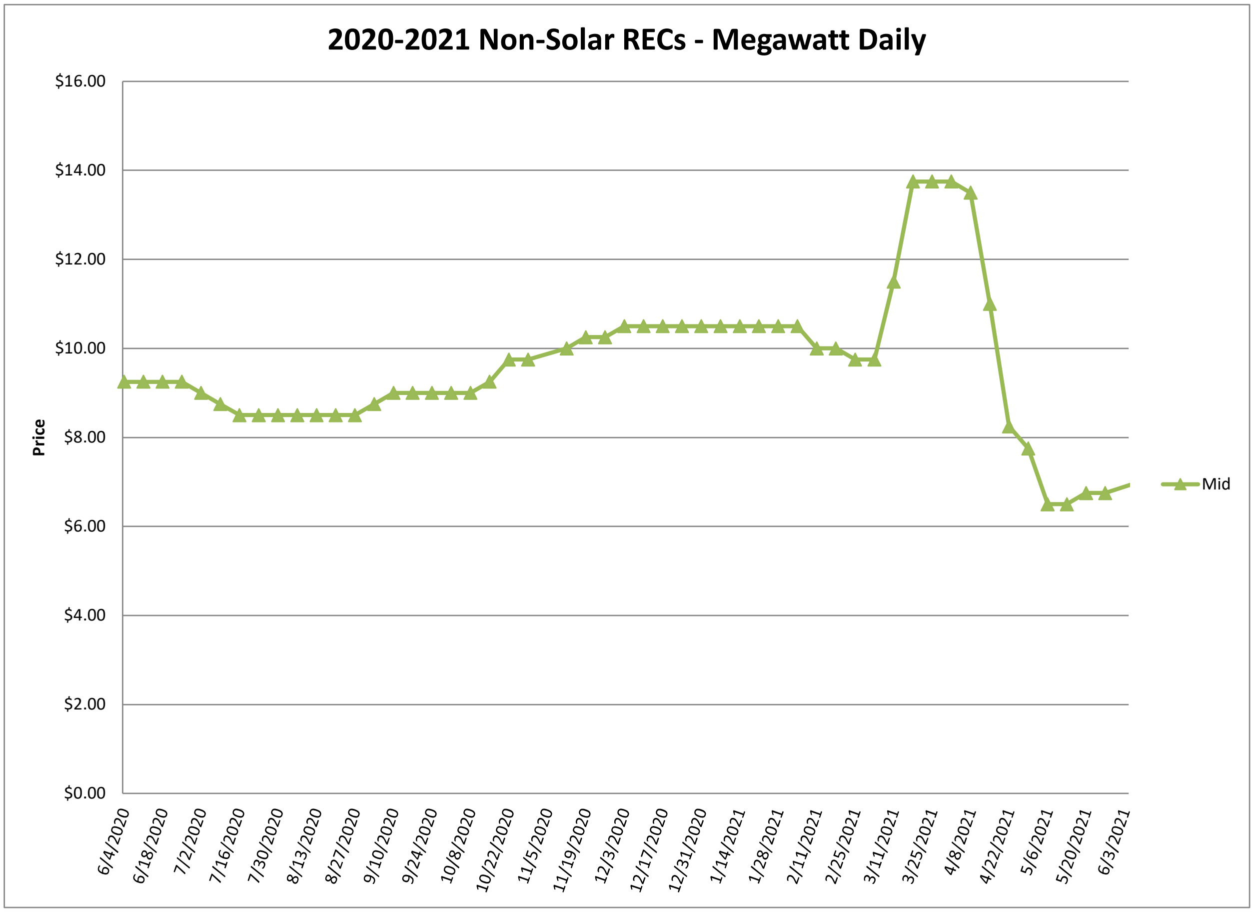
Description	6/4/2020	6/11/2020	6/18/2020	6/25/2020	7/2/2020	7/9/2020	7/16/2020	7/23/2020	7/30/2020	8/6/2020	8/13/2020	8/20/2020	8/27/2020
Ohio Solar Price Per REC	$ 6.00	$ 6.00	$ 6.00	$ 6.00	$ 7.00	$ 7.00	$ 7.00	$ 7.00	$ 7.00	$ 7.00	$ 7.00	$ 7.00	$ 7.50
	9/3/2020	9/10/2020	9/17/2020	9/24/2020	10/1/2020	10/8/2020	10/15/2020	10/22/2020	10/29/2020	11/5/2020	11/12/2020	11/19/2020	11/26/2020
Ohio Solar Price Per REC	$ 8.00	$ 8.00	$ 8.00	$ 8.00	$ 8.25	$ 8.25	$ 8.25	$ 9.00	$ 9.00	$ 9.00	$ 9.00	$ 9.25	$ 9.25
	12/3/2020	12/10/2020	12/17/2020	12/24/2020	12/31/2020	1/7/2021	1/14/2021	1/21/2021	1/28/2021	2/4/2021	2/11/2021	2/18/2021	2/25/2021
Ohio Solar Price Per REC	$ 9.00	$ 9.00	$ 9.00	$ 9.00	$ 9.00	$ 9.00	$ 9.00	$ 9.00	$ 9.00	$ 9.25	$ 8.75	$ 8.25	$ 8.25
	3/4/2021	3/11/2021	3/18/2021	3/25/2021	4/1/2021	4/8/2021	4/15/2021	4/22/2021	4/29/2021	5/6/2021	5/13/2021	5/20/2021	5/27/2021
Ohio Solar Price Per REC	$ 8.75	$ 9.75	$ 9.75	$ 9.75	$ 9.25	$ 8.50	$ 8.50	$ 8.50	$ 8.50	$ 7.25	$ 7.25	$ 7.25	$ 7.25
Source: Platts Megawatts Daily													

As shown in the above exhibit, the weekly market prices for Ohio solar RECs fluctuated between $6.00 per REC to $9.75 per REC during the review period (e.g., the lowest REC price of $6.00 occurring during the week of June 4, 2020 and the highest REC price of $9.75 occurring during the week of March 11, 2021). As discussed above, the Platts Market Daily price per REC data has typically been shown at the low end, high end and market price average. However, similar to the non-solar REC prices, the weekly Ohio solar prices per REC did not fluctuate by the low end, high end and market price average. Therefore, each week of the review period in the above exhibit reflects the market price average per solar REC.

As the period shown in the exhibit above was subsequent to the enactment of HB 6 (which took effect on October 22, 2019), the prices per solar REC from June 2020 through May 2021 were considerably less than what the Company paid for the solar RECs it purchased through May of 2019, which reflect the last solar REC purchases AES Ohio made for RPS compliance, including from the period June 1, 2020 through May 31, 2021.

The chart in the exhibit below reflects the weekly trend in non-solar REC prices during the period June 1, 2020 through May 31, 2021 based on the market prices for non-solar RECs as reflected in the Platts Megawatts Daily publications.

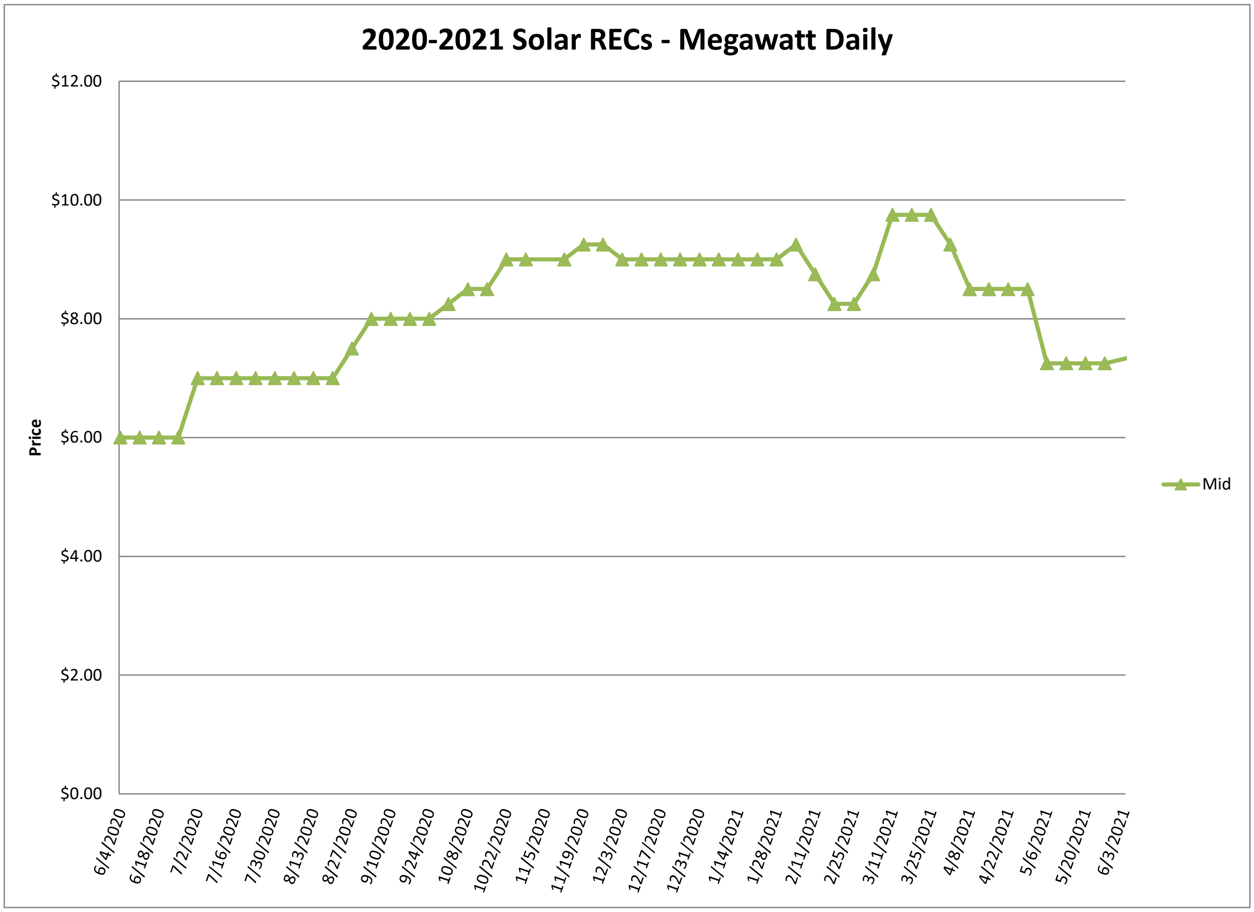
Exhibit 3-9. Weekly Trend of Ohio Non-Solar REC Market Prices During the Period June 1, 2020 Through May 31, 2021



Using the mid-point (i.e., market price average), the chart above shows that during the review period, the non-solar REC market prices (per the Platts Megawatts Daily data) generally remained level at $9.25 per REC and/or rose slightly from June 2020 through the beginning of March 2021, but then rose to a high of $13.75 per REC from mid-March through the beginning of April 2021 before sharply decreasing towards the end of April and through the end of May 2021. As noted previously, AES Ohio did not make any non-solar REC purchases during the June 1, 2020 through May 31, 2021 review period.

The chart in the exhibit below reflects the weekly trend in solar REC prices during the period June 1, 2020 through May 31, 2021 based on the market prices for solar RECs as reflected in the Platts Megawatts Daily publications.

Exhibit 3-10. Weekly Trend of Ohio Solar REC Market Prices During the Period June 1, 2020 Through May 31, 2021



Using the mid-point (i.e., market price average), the chart above shows that during the review period, the solar REC market prices (per the Platts Megawatts Daily data) started at $6.00 at the beginning of June 2020 then rose incrementally beginning in July through mid-October 2020 whereby solar REC prices generally remained level from late October 2020 through the end of January 2021 before decreasing in February only to rise again to a high of $9.75 per REC towards the end of March 2021. The solar REC prices began decreasing beginning in April 2021 and by the end of May 2021, the price per solar REC was $7.25. As noted previously, AES Ohio did not make any solar REC purchases during the June 1, 2020 through May 31, 2021 review period.

Comparison of AES Ohio AEC Rates with AER Rates of Other Ohio Electric Utilities

Larkin obtained information from the Commission's Renewable Energy Portfolio Standard website concerning how AES Ohio's AEC rates during recent quarterly periods have compared with the other Ohio electric utilities' AER rates. The following exhibit shows the comparison for the fourth quarter of 2020:

Exhibit 3-11. Comparison of AER Rates for Fourth Quarter 2020

Ohio Electric Distribution Utility AER Rates, 4th Quarter 2020			
EDU	Source	AER Rate ($/kWh)	Average Monthly Bill Impact
Cleveland Electric Illuminating	AER Filing	0.0007210	$ 0.54
Dayton Power & Light [Note]	Revised Tariff Filing	0.0003842	$ 0.29
Duke Energy - Ohio	AER Filing	0.0001750	$ 0.13
Ohio Edison Company	AER Filing	0.0006330	$ 0.47
Ohio Power Company	AER Filing	0.00038973	$ 2.92
Toledo Edison Company	AER Filing	0.0007530	$ 0.56

Source:

https://puco.ohio.gov/wps/portal/gov/puco/utilities/electricity/resources/ohio-renewable-energy-portfolio-standard/
2020-rps-edu-rate-impacts

Note: As discussed in the report, DP&L's AER component charge has been included as a component of the Standard Offer Rate instead of as a separate AER tariff. The alternative energy component charge will be updated and reconciled on a annual basis. See Twenty-First Revised Tariff Sheet No. G10, effective June 1, 2020.

As shown in the above exhibit, for the fourth quarter of 2020, AES Ohio's (referred to as Dayton Power & Light) AEC rate was $0.0003842 per kWh and had an average monthly bill impact of $0.29. Of the six utilities listed above, only Duke Energy – Ohio with an AER rate of $0.0001750 per kWh and an average monthly bill impact of $0.13 was lower than AES Ohio's AEC rate of $0.29.

A comparison of AER rates for the second quarter of 2021 is shown in the exhibit below:

Exhibit 3-12. Comparison of AER Rates for Second Quarter 2021

Ohio Electric Distribution Utility AER Rates, 2nd Quarter 2021			
EDU	Source	AER Rate ($/kWh)	Average Monthly Bill Impact
Cleveland Electric Illuminating	AER Filing	0.0010760	$ 0.81
Dayton Power & Light [Note]	Revised Tariff Filing	0.0003842	$ 0.29
Duke Energy - Ohio	AER Filing	0.0002670	$ 0.20
Ohio Edison Company	AER Filing	0.0010980	$ 0.82
Ohio Power Company	AER Filing	0.00389730	$ 2.92
Toledo Edison Company	AER Filing	0.0009940	$ 0.75

Source:

https://puco.ohio.gov/wps/portal/gov/puco/utilities/electricity/resources/ohio-renewable-energy-portfolio-standard/
2021-rps-edu-rate-impacts

Note: As discussed in the report, DP&L's AER component charge has been included as a component of the Standard Offer Rate instead of as a separate AER tariff. The alternative energy component charge will be updated and reconciled on a annual basis. See Twenty-First Revised Tariff Sheet No. G10, effective June 1, 2020.

As shown in the above exhibit, for the second quarter of 2021, AES Ohio's AEC rate was still $0.0003842 per kWh and had an average monthly bill impact of $0.29. These amounts did not change in the second quarter of 2021 since the Company's SOR filings are filed on annual basis. Similar to the fourth quarter of 2020, only Duke Energy – Ohio with an AER rate of $0.0002670 per kWh and an average monthly bill impact of $0.20 was lower than AES Ohio's AEC rate of $0.29.

Internal Audits

Larkin requested that the Company provide a listing of any and all internal audit reports that related to the AEC and/or SOR Alternative Energy Component-related costs as well as purchases and revenues associated with the AEC and/or SOR Alternative Energy Component for the June 1, 2020 through May 31, 2021 review period. In its response to LA-Audit2-1-60, the Company stated that it has not performed any internal audits related to the AEC or the SOR Alternative Energy Component during the review period.

4) 4) A Review of Any Other Specific Items as Identified by the Commission or Staff

To our knowledge, no other items were identified by the Commission or Staff.

Conclusion

Based on our discussions with Company personnel and reviewing the information provided pursuant to those discussions, Larkin concludes that the Company's management of its RECs for Ohio RPS compliance during the period June 1, 2020 through May 31, 2021 was generally reasonable. With regard to the procurement of RECs, as discussed in this report, the Company did not make any solar or non-solar REC purchases during the Audit 2 review period, but rather fulfilled its RPS compliance obligation with solar and non-solar RECs that were previously purchased during the Audit 1 review period of June 1, 2016 through May 31, 2020 (i.e., in 2019 through May, so prior to the enactment of HB 6).

However, as was discussed in our Audit 1 report, from the comparisons of the REC prices paid by AES Ohio to the market prices that corresponded with the Company's REC purchases during that prior period (i.e., June 2016 through May 2020), we had also concluded that there was room for improvement related to AES Ohio procuring RECs at the lowest possible prices going forward. Since the Company made no additional REC purchases from June 2020 through May 2021, the conclusion as to whether the Company will improve its procurement practices by purchasing RECs at the lowest prices possible will have to be determined in the next audit of AES Ohio's AEC.

4 FINANCIAL AUDIT OF THE AEC

Scope and Objectives

To accomplish the review of AES Ohio's AEC for the June 1, 2020 through May 31, 2021 review period, the following aspects were included in the verification and testing:

1) Review the Company’s SOR filing during the audit period to verify the accuracy of the information and calculations;
2) A review of the individual components (including, but not limited to, transactions of RECs or S-RECs and costs of implementing associated RFPs) that may have been included within the Company's AEC information and calculations in order to verify that the costs were appropriately included;
3) A review to verify the accuracy of information and calculations related to any carrying charges included in the Company's AEC calculations;
4) A sample of invoices for costs included in the AEC to assure that only appropriately incurred costs were included in the rider;
5) Review the Company’s status related to the 3% provision contained within R.C. 4928.64(C)(3);
6) Compare the costs recovered through the AEC during the review period to the costs incurred;
7) A review of the Company’s compliance with recommendations from the prior audit, if applicable; and
8) A review of any other specific items as identified by the Commission or its Staff.

Each of these items is discussed in the sections below.

Minimum Review Requirements

Larkin referred to the objectives and procedures outlined in Attachment 2 of the RFP as guidance for the review requirements of this project. The Financial Audit Program Standards are intended to be used as a guide for the auditor in conformance with the specific requirements of the Company's AEC and should not be used to the exclusion of the auditor’s initiative, imagination, and thoroughness.

The information included here was used as guidance, in addition to appropriate discretion on the part of the auditor in order to conduct the regulatory verification of AES Ohio's renewables costs and REC inventory accounting in conformance with the specific requirements of the Company’s

AEC that applied for the June 1, 2020 through May 31, 2021 review period. Larkin reviewed and applied relevant criteria in review of the Company's decisions and actions related to its RPS compliance activities.

The Alternative Energy Component is intended to compensate AES Ohio for compliance costs realized in meeting the renewable portfolio standards prescribed by Section 4928.64 of the Ohio Revised Code.

Period for Review of Renewables Cost and AEC

The audit period for AES Ohio's renewables is the period June 1, 2020 through May 31, 2021 and we reviewed the Company's renewables costs for that period.

1) A Review of the Company's AEC in its SOR Filings during the Audit Period to Verify the Accuracy of the Information and Calculations

The following exhibit summarizes AES Ohio's SOR filings covering both the forecast period as well as the actual renewables related costs and revenues (i.e., reconciliation) during the review period of June 1, 2020 through May 31, 2021.

Exhibit 4-1. Summary of AES Ohio's SOR Filings During the June 1, 2020 through May 31, 2021 Review Period

June 1, 2020 through May 31, 2021 AEC Rates per Annual SOR Filings				
Filing Date	**Forecasted Period**	**AEC Charge per kWh**	**Effective Date**	**Reconciliation Period**
April 30, 2020	June 1, 2020 - May 31, 2021	$ 0.0003842	June 1, 2020	April 2019 - March 2020
May 25, 2021	June 1, 2021 - May 31, 2022	$ 0.0004420	June 1, 2021	April 2020 - March 2021

Although the May 25, 2021 SOR filing's forecasted period is June 1, 2021 through May 31, 2022 (i.e., outside the Audit 2 review period), this filing reflects actual AEC related costs for the period June 1, 2020 through March 31, 2021. The Company provided actual AEC related costs for April and May 2021 in its supplemental response to LA-Audit2-1-2 as discussed in a later section of this chapter.

As discussed in detail below, the Company provided the workpapers which support the AEC rates that are reflected in AES Ohio's SOR filings.

2) A Review of the Individual Components (including, but not limited to, transactions of RECs or S-RECs and costs of implementing associated RFPs) that may have been Included within the Company's SOR Information and AEC Calculations in Order to Verify that the Costs were Appropriately Included

Larkin reviewed AES Ohio's SOR workpapers for the June 1, 2020 through May 31, 2021 review period, which the Company provided in its responses to LA-Audit2-1-2 and LA-Audit2-

1-5. Because AES Ohio's AEC costs are trued-up to actuals, Larkin's review focused on the workpapers which reflected actual amounts versus forecasted amounts for REC expense, compliance administration expense, revenue and carrying costs which is from where the reconciliation adjustment ("RA") component of the Company's AEC rate is determined (see additional discussion below). For purposes of illustrating how AES Ohio calculated its forecasted AEC rate in the SOR, the exhibit below replicates Attachment 1 from the response to LA-Audit2-1-2, which is the Company's forecasted annual SOR filing for the period June 1, 2020 through May 31, 2021.

Annual SOR Filing With Alternative Energy Component

Larkin's review of AES Ohio's annual SOR filing covered the forecast period June 2020 through May 2021. As an illustration, the following sections discuss AES Ohio's annual SOR filings with the Alternative Energy Component by reproducing certain schedules from the Company's annual SOR filing.

Exhibit 4-2. Forecasted Standard Offer Rates (per KWh) Schedule 1, June 2020 through May 2021 - Schedule 1

The Dayton Power and Light Company
Case No. 20-0790-EL-RDR
Forecasted Standard Offer Rates (per kWh)
June 1, 2020 - May 31, 2021

(A)	(B)	(C)	(D)	(E)	(F)
		Non-PIPP: Schedule 2, Line 47 PIPP: Schedule 2.1, Line 47	Schedule 3, Line 43	Schedule 4, Line 41	Sum of Column(C) thru Column (E)
Line	Description	Competitive Bid	Alternative Energy	Unbilled Fuel	**Standard Offer Rate**
1	Residential (Non-PIPP)	$0.0450686	$0.0003842	$0.0005939	**$0.0460468**
2					
3	Residential Heating (Non-PIPP)				
4	Summer	$0.0450686	$0.0003842	$0.0005939	**$0.0460468**
5	Winter	$0.0382675	$0.0003842	$0.0005939	**$0.0392456**
6					
7	Residential (PIPP)	$0.0394415	$0.0003842	$0.0005939	**$0.0404197**
8					
9	Residential Heating (PIPP)				
10	Summer	$0.0394415	$0.0003842	$0.0005939	**$0.0404197**
11	Winter	$0.0334896	$0.0003842	$0.0005939	**$0.0344677**
12					
13	Secondary	$0.0450686	$0.0003842	$0.0005939	**$0.0460468**
14					
15	Primary	$0.0439107	$0.0003842	$0.0005939	**$0.0448888**
16					
17	Primary Substation	$0.0434542	$0.0003842	$0.0005939	**$0.0444323**
18					
19	High Voltage	$0.0434542	$0.0003842	$0.0005939	**$0.0444323**
20					
21	Street Lighting	$0.0450686	$0.0003842	$0.0005939	**$0.0460468**
22					
23	Private Outdoor Lighting				
24					
25	3600 Lumens Light Emitting Diode	$0.6309609	$0.0053790	$0.0083147	**$0.6446546**
26	8400 Lumens Light Emitting Diode	$1.3520592	$0.0115264	$0.0178172	**$1.3814028**
27	9500 Lumens High Pressure Sodium	$1.7576769	$0.0149844	$0.0231623	**$1.7958236**
28	28000 Lumens High Pressure Sodium	$4.3265893	$0.0368846	$0.0570150	**$4.4204889**
29	7000 Lumens Mercury	$3.3801479	$0.0288161	$0.0445429	**$3.4535069**
30	21000 Lumens Mercury	$6.9405703	$0.0591691	$0.0914615	**$7.0912009**
31	2500 Lumens Incandescent	$2.8843929	$0.0245898	$0.0380100	**$2.9469926**
32	7000 Lumens Fluorescent	$2.9745301	$0.0253582	$0.0391978	**$3.0390861**
33	4000 Lumens PT Mercury	$1.9379514	$0.0165212	$0.0255380	**$1.9800106**
34					
35	Private Outdoor Lighting (PIPP)				
36					
37	3600 Lumens Light Emitting Diode	$0.5521814	$0.0053790	$0.0083147	**$0.5658751**
38	8400 Lumens Light Emitting Diode	$1.1832459	$0.0115264	$0.0178172	**$1.2125895**
39	9500 Lumens High Pressure Sodium	$1.5382197	$0.0149844	$0.0231623	**$1.5763664**
40	28000 Lumens High Pressure Sodium	$3.7863869	$0.0368846	$0.0570150	**$3.8802865**
41	7000 Lumens Mercury	$2.9581148	$0.0288161	$0.0445429	**$3.0314739**
42	21000 Lumens Mercury	$6.0739957	$0.0591691	$0.0914615	**$6.2246263**
43	2500 Lumens Incandescent	$2.5242580	$0.0245898	$0.0380100	**$2.5868577**
44	7000 Lumens Fluorescent	$2.6031410	$0.0253582	$0.0391978	**$2.6676970**
45	4000 Lumens PT Mercury	$1.6959858	$0.0165212	$0.0255380	**$1.7380450**

Schedule 1: This schedule reflects the components of AES Ohio's forecasted standard offer rates (per kWh) for the period June 1, 2020 through May 31, 2021. As shown in the exhibit above, the components of the SOR include: (1) competitive bid rate in column C, (2) the AEC rate in column D, and (3), the unbilled rate in column E. The sum of these three components comprises the SOR rate shown in column F. These individual rates are applied to the Company's various rate classes shown in column B. As it relates to the AEC, the $0.0003842 rate shown in column

D is calculated on Schedule 3 of the Company's SOR filing (see additional discussion below). In addition, as it relates to Private Outdoor Lighting and Private Outdoor Lighting (PIPP)[20], the rates shown for the components of the Private Outdoor Lighting (PIPP and non-PIPP) at lines 25-33 and 37-45 in the exhibit above are calculated by multiplying the AEC rate of $0.0003842 by the kWh associated with each of the types of fixtures listed in column B. For example, for the non-PIPP Private Outdoor Lighting for 9500 Lumens High Pressure Sodium (line 27 in the exhibit above) the rate shown of $0.0149844 was derived by multiplying the $0.0003842 AEC rate by 39, the number of kWh associated with that type of fixture.

Exhibit 4-3. Standard Offer Rate for the Alternative Energy Component - Schedule 3

[redacted]

Schedule 3: Column C of Schedule 3 reflects AES Ohio's actual and forecasted REC expense for the period April 2019 through May 2021.[21] Column D of Schedule 3 reflects AES Ohio's actual and forecasted Compliance Administration expenses for the same period. The REC

[20] PIPP stands for Percentage of Income Payment Plan.
[21] As shown by Column K, the data for April 2019 thru March 2020 is actual data, while the numbers for April 2020 thru May 2021 are forecasted data.

expenses and compliance administration expense were then combined for Total expenses as shown in column E. Column F reflects AES Ohio's actual and forecasted revenues for April 2019 through May 2021.[22] The difference between the Company's actual and forecasted RPS compliance costs and actual and forecasted revenues results in an (over) or under-recovery as shown in column G. Column H reflects the actual and forecasted carrying costs for the period of April 2019 through May 2021. The (over)/under-recovery and carrying costs for the period of April 2019 through May 2021 are then combined as shown in the Total column (column I) with year-to-date amount shown in column J. As shown on lines 29-33, the total forecasted AEC costs of $1,460,584 are calculated, which include (1) the over-recovery amount of ($13,167) as of May 2020, (2) forecasted REC expense of $1,470,193 for the period June 2020 through May 2021, (3) forecasted compliance administration costs of [redacted] for the period June 2020 through May 2021, and (4) forecasted carrying costs of ($1,754) for the period June 2020 through May 2021. The total forecasted AEC costs of $1,460,584 are then divided by the Standard Offer Sales forecast of 3.829 billion kWh to derive an AEC rate of $0.0003814. Finally, an adjustment factor of $0.0073, which is comprised of adjustments for Commercial Activity Tax ("CAT") and uncollectibles expense is calculated, which results in the final AEC rate per kWh of $0.0003842 that is shown on Schedule 1, column D (Exhibit 4-2 above).

<u>Actual Costs Included in the SOR Filings</u>

The Company's response to LA-Audit2-1-2 included several attachments, which reflected the Company's actual AEC reconciliation activity for the June 1, 2020 through May 31, 2021 review period on Schedule 3 of SOR workpapers. The actual costs and revenues of the AEC for the period June 2020 through May 2021 are summarized in the following exhibit:

[22] Total SOR revenue is allocated between unbilled fuel, competitive bid expense and the AEC, net of bad debt and CAT taxes. The rates from which the SOR revenue is allocated is determined every June. The journal entry packet for June 2020 (provided in response to LA-Audit2-1-5) contains support for the rates and allocations.

Exhibit 4-4. Summary of Actual Costs for June 2020 through May 2021

[redacted]

As shown in the above exhibit, the Company reported total REC expense of $1,494,925 for the period June 2020 through May 2021 along with compliance administration expense totaling [redacted] for total AEC expense of $1,545,319. Larkin requested that AES Ohio provide the accounting support for the compliance administration expense over the entire review period (see additional discussion below). In addition, the Company reported revenue totaling $1,530,292 resulting in an initial under-recovery amount of $15,028. After including carrying costs in the amount of $541, the result was an under-recovery amount of $15,569 for the period June 2020 through May 2021. When factoring in prior period amounts, the year-to-date under-recovery totaled $29,086 as of May 31, 2021.

Administrative Expense

For the period June 1, 2020 through May 31, 2021, AES Ohio reported compliance administrative expenses which are comprised of: (1) PJM-GATS tracking expenses, (2) audit fees, and (3) [redacted] of the cost for base labor (see additional discussion below).[23] The exhibit below provides a breakout of each component of the administrative costs that flowed through the AEC during the period June 2020 through May 2021:

[23] See LA-Audit2-2-1, Attachment 1.

Exhibit 4-5. Renewables Compliance Administrative Expense for the Period June 2020 through May 2021

[redacted]

As shown in the above exhibit, during the period June 2021 through May 2021, AES Ohio reported PJM Fees totaling $1,500, audit fees totaling $45,026 and labor costs totaling [redacted] for a grand total of [redacted]. As shown in the above exhibit, there were no compliance or administrative fees reflected for April and May 2021. In response to our inquiry, in an email dated November 4, 2021, AES Ohio confirmed that there were no such costs incurred in April or May 2021. The amount for PJM Fees relates to the subscription fees associated with AES Ohio's PJM-GATS account which is the tracking system through which AES Ohio's RECs are retired. The audit fees relate to Larkin's two invoices from Audit 1 that were submitted to AES Ohio in December 2020 and March 2021. With regard to the labor costs, as noted in the exhibit above, there were no additional labor costs included in the AEC after February 2021. In its response to LA-Audit2-2-1, the Company stated that starting in February 2021, base labor is no longer included in the AEC. This is because the employee that was responsible for REC procurements was transferred to a subsidiary of AES Corporation (AES Ohio's parent company) and the portion of labor attributable to this employee's REC procurement is not billed to AES Ohio.[24] We traced all of the monthly compliance administration expense amounts in the exhibit above to AES Ohio's general ledger. No exceptions were noted.

3) A Review to Verify the Accuracy of Information and Calculations Related to any Carrying Charges Included in the Company's AEC Calculations

RFP No. RA20-AER-1 provides at Attachment 2, Item 3 that the auditor conduct:

> A review to verify the accuracy of information and calculations related to any carrying charges included in the Company's quarterly AER calculations.

[24] See the response to LA-Audit2-2-1.

AES Ohio's carrying charges were based on a cost of debt of 4.80%, which was authorized by the Commission in its Opinion and Order dated September 26, 2018 in Case No. 15-1830-EL-AIR.

The Company's SOR filing workpapers, which were provided in AES Ohio's response to LA-Audit2-1-2, shows the calculation of carrying costs by month for the period June 2020 through May 2021, as follows:

Exhibit 4-6. Summary of Carrying Costs for June 2020 through May 2021

Line No.	Period	First of Month Balance	New AEC Charges	Amount Collected CR	Net Amount	End of Month Before Carrying Cost	Carrying Cost 4.800%	End of Month Balance	Less: One-Half Monthly Amount	Total Applicable to Carrying Cost
(A)	(B)	(C)	(D)	(E)	(F) = (D) + (E)	(G) = (C) + (F)	(H)	(I)	(J)	(K)
	Prior Period							$ 13,517		
1	Jun-20	$ 13,517	$ 109,818	$ (121,207)	$ (11,389)	$ 2,128	$ 31	$ 2,160	$ 5,694	$ 7,823
2	Jul-20	$ 2,160	$ 143,294	$ (150,528)	$ (7,234)	$ (5,074)	$ (6)	$ (5,080)	$ 3,617	$ (1,457)
3	Aug-20	$ (5,080)	$ 138,058	$ (145,288)	$ (7,230)	$ (12,310)	$ (35)	$ (12,345)	$ 3,615	$ (8,695)
4	Sep-20	$ (12,345)	$ 132,755	$ (139,536)	$ (6,782)	$ (19,126)	$ (63)	$ (19,189)	$ 3,391	$ (15,735)
5	Oct-20	$ (19,189)	$ 91,834	$ (96,468)	$ (4,634)	$ (23,823)	$ (86)	$ (23,909)	$ 2,317	$ (21,506)
6	Nov-20	$ (23,909)	$ 94,009	$ (96,921)	$ (2,912)	$ (26,821)	$ (101)	$ (26,923)	$ 1,456	$ (25,365)
7	Dec-20	$ (26,923)	$ 150,598	$ (124,456)	$ 26,142	$ (781)	$ (55)	$ (836)	$ (13,071)	$ (13,852)
8	Jan-21	$ (836)	$ 167,735	$ (153,314)	$ 14,421	$ 13,584	$ 26	$ 13,610	$ (7,210)	$ 6,374
9	Feb-21	$ 13,610	$ 160,212	$ (141,927)	$ 18,284	$ 31,894	$ 91	$ 31,985	$ (9,142)	$ 22,752
10	Mar-21	$ 31,985	$ 160,749	$ (130,970)	$ 29,779	$ 61,764	$ 188	$ 61,951	$ (14,889)	$ 46,874
11	Apr-21	$ 61,951	$ 106,775	$ (99,266)	$ 7,508	$ 69,459	$ 263	$ 69,722	$ (3,754)	$ 65,705
12	May-21	$ 69,722	$ 89,484	$ (84,180)	$ 5,304	$ 75,026	$ 290	$ 75,316	$ (2,652)	$ 72,374
13	Total	$ 104,662	$ 1,545,319	$ (1,484,062)	$ 61,258	$ 165,920	$ 541	$ 166,461	$ (30,629)	$ 135,291

Notes and Source:

Amounts from Attachment 3 to the original and supplemental response to LA-Audit2-1-2

*The Opinion and Order in Case No. 15-1830-EL-AIR updated the cost of debt from 4.943% to 4.80% beginning in October 2018

As shown in the above exhibit Larkin recalculated carrying costs for each month of the June 2020 through May 2021 review period using the 4.80% cost of debt rate, which netted to $541 and which flowed through the AEC from June 2020 through May 2021. Larkin tied these amounts to the general ledger. No exceptions were noted.

4) A Review of the Company's Status Relative to the 3% Provision Contained within R.C. 4928.64(C)(3)

RFP No. RA20-AER-1 provided standards for reviewing the Company's AEC which included Attachment 2, Item 5, which states:

> A review of the Company's status relative to the three percent provision contained within Section, 4928.64(C)(3).

In accordance with Section 4928.64(C)(1) of the revised Ohio Code, the Commission annually reviews electric distribution utilities and/or electric services companies' compliance with the benchmarks reflected in the Renewable Benchmarks exhibit above. As part of that review, the Commission identifies under-compliance or non-compliance that it determines is related to weather, equipment, resource shortages for advanced energy, or renewable energy sources, and which is outside a utility's or electric service company's control. Section 4928.64(C)(3) of the revised code states that:

> An electric distribution utility or an electric services company need not comply with a benchmark under division (B) (2) of this section to the extent that its reasonably expected cost of that compliance exceeds its reasonably expected cost of otherwise producing or acquiring the requisite electricity by three percent or more. The cost of compliance shall be calculated as though any exemption from taxes and assessments had not been granted under section 5727.75 of the Revised Code.

On March 26, 2020, OAC 4901:1-40-7 Cost Cap became effective, which states in part:

> (A) By no later than April fifteenth of each compliance year, electric utilities and electric services companies shall calculate their status relative to the statutory three percent cost provision during the most recent compliance year. Electric services companies may be excused from this requirement pursuant to paragraph (A)(3)(g) of rule 4901:1-40-05 of the Administrative Code. Alternatively, an electric utility or electric services company may file an application with the Commission for review of its cost cap calculation prior to the date required in rule 4901:1-40-05 of the Administrative Code.
>
> (1) A discretionary three percent cost cap is applicable to the renewable energy benchmarks specified in division (B)(2) of Section 4928.64 of the Revised Code; (2) An electric utility or electric services company shall pursue all reasonable compliance options prior to requesting relief from compliance with the renewable energy resource requirements based on the three percent cost cap; (3) In the case that the Commission makes such a determination that an electric utility's or electric services company's compliance costs exceed the applicable three percent cost cap, the electric utility or electric services company may not be required to fully comply with the renewable energy benchmarks specified in division (B)(2) of Section 4928.64 of the Revised Code.
>
> (B) The calculation of the Company's status relative to the statutory three percent cost provision shall follow the multi-step process as detailed in this rule. If full compliance with the applicable benchmark would prompt a company to exceed the three percent cost provision, the company may seek relief from the Commission for that incremental portion of its compliance obligation.

During Audit 1, Larkin had requested that AES Ohio provide detailed calculations that show how it derived the 3% cost cap for each year of the June 1, 2016 through May 31, 2020 review period. In its supplemental response to LA-Audit1-2-2 from Audit 1, the Company stated:

> DP&L does not keep records showing the calculation of the 3% Cost Cap. The rule determining the methodology setting the discretionary 3% cost cap was not effective until March 26, 2020, prior to that there was no requirement to calculate this. We have been and continue to be so far below the 3% cap based on the draft

rule that we believe it is unnecessary to calculate and/or present these calculations in our annual updates.

Under OAC 4901:1-40-05(A)(3)(d), EDUs are required to include details on their 3% status as part of their annual compliance filings. Therefore, in our Audit 1 report, Larkin had recommended that the Company continue to compile its monthly journal entry packets and that going forward, the journal entry packets should also include a description and illustrative calculation of the 3% cost cap.

The Commission adopted our Audit 1 recommendations in their entirety in its Finding and Order dated June 16, 2021. However, as previously discussed, due to the timing of the Commission's Finding and Order, the Company had not yet had time to implement the approved recommendations, including the description and illustrative calculation of the 3% cost cap in its journal entry packets.

During a Microsoft Teams meeting with the Company on October 15, 2021, AES Ohio stated that it was in the process of developing internal policies with respect to Larkin's Audit 1 recommendations and would supplement the response to LA-Audit2-1-51 once completed. The Company provided the internal policies it developed pursuant to our Audit 1 recommendations in its supplemental response to LA-Audit2-1-51 on November 10, 2021. As it relates specifically to the 3% cost cap provision, the Company provided a copy of its journal entry packet for July 2021. While this journal entry packet is outside the of the audit period for this review, we noted that the Company did include the 3% cost cap calculation pursuant to our recommendation, which is replicated in the exhibit below:

Exhibit 4-7. Calculation of 3% Cost Cap in July 2021 Journal Entry Packet

Description	Amount
Baseline	$ 3,840,994
Cost per MWh	$ 47.01
Total Cost	$ 180,565,128
	3%
3% Cost Cap	$ 5,416,954
2020 Compliance Benchmark	211,255
$/MWh Compliance (WACI)	$ 7.26
Total to Comply	$ 1,533,711
Cost Cap Status	0.85%

As shown in the exhibit above, the 3% cost cap calculates to $5.517 million. As shown in Exhibit 4-4 above, the total cost of RECs for the June 1, 2020 through May 31, 2021 review period was 1,494,925, which is well below the cost cap calculated in the above exhibit. Other than confirming that AES Ohio's monthly journal entry packets include the 3% cost cap calculation going forward (in the next AEC audit) Larkin has no recommendation regarding the 3% provision for Audit 2.

REC Inventories

As discussed in the Company's Annual Compliance filings, pursuant to Ohio Revised Code §4928.645, RECs that were purchased by the Company generally are usable within a five-year period. Any RECs held by AES Ohio at December 31 of a given year that are in excess of its Benchmarks for that year will be banked for future use.

According to the response to LA-Audit2-1-10, AES Ohio does not have a REC inventory system to track its positions. Rather, the monthly journal entry packets that were provided in response to LA-Audit2-1-5 (which includes the Company's WACI files), contain the REC inventory data for the review period. In addition, the REC balance is tied to PJM-GATS on a monthly basis as part of the journal entry process. The Company also uses the PJM GATS system for its REC retirements and ensuring inventory volumes. Pursuant to the passage of HB 6, during the period June 2020 through May 2021, the Company maintained a blended inventory of solar and non-solar RECs.[25]

Larkin reviewed AES Ohio's WACI reports, which were provided in the response to LA-Audit2-1-15. Specifically, the Company provided two WACI reports, including (1) a WACI report for the period ended December 31, 2020, which reflected the non-solar and solar RECs that were retired in the June 1, 2020 through May 31, 2021 review period for compliance purposes (i.e., April 2021), and (2) a WACI report for the period ended May 31, 2021.

AES Ohio started the June 1, 2020 through May 31, 2021 review period with a surplus of non-solar and solar RECs as shown in the exhibit below.

Exhibit 4-8. REC Positions During the June 1, 2020 through May 31, 2021 Review Period

Line No.	Description	December 2020	May 2021
	Combined Solar and Non-Solar		
1	Beginning REC Inventory	372,140	273,713
2	Non-Solar REC Purchases in January and February 2020	112,828	15,000
3	Balance at December 2020 and May 2021 Respectively	484,968	288,713
4	Designated for RPS Compliance	(211,255)	(98,930)
5	Combined Solar and Non-Solar REC Balance Net of Compliance Requirements	273,713	189,783
Note: As of January 1, 2020, solar and non-solar RECs were combined pursuant to HB 6			
Source: WACI Reports from the response to LA-Audit2-1-15			

As shown in the exhibit above, the 2020 non-solar and solar REC inventory balances were combined due to the enactment of HB 6, the passage of which no longer mandated a separate solar carve out for Ohio compliance. AES Ohio maintained a long position with 273,713 combined solar and non-solar RECs at the end of December 2020. The Company maintained its blended balance of 273,713 RECs (as of December 31, 2020) for a total balance of 288,713 RECs as of May 31, 2021. The May 31, 2021 balance of 288,713 RECs includes the 15,000

[25] Also see the responses to LA-Audit2-1-17 and LA-Audit2-1-18.

solar and non-solar RECs that AES Ohio purchased during 2019, but which were delivered in March 2021 that was previously discussed.[26] Thus, as shown on lines 1-5, the Company had sufficient RECs to meet RPS compliance requirements for 2020 and, based on current projections, 2021 too (see below).

As previously discussed, the 211,255 RECs retired to satisfy AES Ohio's 2020 compliance obligation were reported in the Company's annual alternative portfolio status report that was filed on April 15, 2021 and reflected on the related PJM-GATS tracking system report[27]. The balances of 484,968 RECs as of December 31, 2020 and 288,713 RECs as of May 31, 2021 are also reflected on the monthly position Excel report that AES Ohio provided in its response to LA-Audit2-1-31. No exceptions were noted. With regard to the 98,930 RECs to be retired for 2021 RPS compliance, this amount is expected to change as monthly through December 31, 2021, which is outside the scope of this audit. The final amount of REC retirements for 2021 RPS compliance will not be reflected until AES Ohio files its annual alternative portfolio status report in April 2022.

The Company retires the solar and non-solar RECs for RPS compliance based on the year-to-date kWh sales using the Weighted Average Cost of Inventory. Larkin tested AES Ohio's weighted average REC calculations from the WACI reports for the review period and tied the amounts to the general ledger detail included in the journal entry packets. No exceptions were noted.

During the Audit 1 AEC audit, AES Ohio explained that after the retirement for RPS compliance has been made, the Company makes an adjustment to ensure that the WACI reports reflect the correct REC balance after retirements for compliance. Upon reviewing the monthly WACI reports that were provided in response to LA-Audit2-1-5, Larkin noted that the WACI reports for the period June through December 2020 reflected the activity shown in the exhibit below:

Exhibit 4-9. REC Inventory Balance for the Period June through December 2020

[redacted]

[26] The journal entry packet for March 2021, which includes the March WACI report, reflects the 15,000 RECs purchased in 2019, but for which AES Ohio took delivery in March 2021.
[27] The PJM-GATS tracking system report was provided in the response to LA-Audit2-1-50.

As shown in the exhibit above, the Company took delivery on RECs in January and February 2020 (on REC purchases that were executed in 2019) as well as the aforementioned adjustment of $18,531 made in March 2020. As these transactions were recorded in the June 1, 2016 through May 31, 2020 review period, they were discussed in our Audit 1 report and presented here for informational purposes. Specifically, they are presented here (1) since they are reflected in the June 2020 through December 2020 WACI reports, and (2) the June through December 2020 WACI reports substantiate the Company's statement that AES Ohio did not purchase any solar or non-solar RECs during the June 1, 2020 through May 31, 2021 review period. The December 31, 2020 ending balance of 484,968 RECs had an overall cost of $3,276,597 and WACI of $6.756. These amounts tied back to the Company's journal entry packets that were provided in response to LA-Audit2-1-5. In addition, Larkin tied these REC adjustments to the general ledger detail. No exceptions were noted.

The WACI reports for the period March through May 2021 reflected the activity shown in the exhibit below:[28]

Exhibit 4-10. REC Inventory Balance for the Period March through May 2021

[redacted]

The exhibit above shows the Company's blended REC balance as of January 1, 2021 net of the 2020 retirements for RPS compliance, but does not subtract the projected retirements for January and February 2021. In addition, the exhibit reflects the 15,000 RECs discussed previously that AES [redacted], but for which the Company did not take delivery on until March 2021. After factoring in these 15,000 RECs, the May 31, 2021 ending balance of 288,713 RECs had an overall cost of $1,937,858 and WACI of $6.712. These amounts tied back to the Company's journal entry packets that were provided in response to LA-Audit2-1-5. In addition, Larkin tied these REC adjustments to the general ledger detail. No exceptions were noted.

In its Audit 1 report, Larkin had recommended that the Company review its history of monthly REC usage and annual adjustments after retirements for RPS compliance to remove RECs from inventory and/or reduce REC costs in inventory (which have occurred in each year 2018, 2019 and 2020) and develop improved forecasting and estimation processes to better calibrate REC compliance usage throughout the year and thereby avoid or minimize annual year-end REC inventory restoration entries.

[28] As AES Ohio did not purchase any RECs in January and February 2021, the WACI reports for those months reflect the December 31, 2020 ending balance of 273,713 RECs for the beginning and ending January and February 2021 REC balances.

As discussed previously, in its Finding and Order dated June 16, 2021, the Commission adopted all of Larkin's recommendations from our Audit 1 report in their entirety. In its supplemental response to LA-Audit2-1-51, which was provided on November 10, 2021, the Company provided the internal policies it developed in order to comply with our Audit 1 recommendations. As it relates to the foregoing recommendation, the Company provided the following narrative:

> The 'restoration entries'/ annual adjustments will no longer be needed; thus, AES Ohio does not believe that issue 6 and 4 are relevant to the current audit period. REC usage is based on the percentage of load used by those customers not receiving generation from a CRES. REC usage follows load which is dependent largely on weather variations and other factors. RECs are expensed monthly based on actual load for all the days that are available at the time of monthly closing. Any estimates are trued up in the next month for actuals. An annual year-end REC inventory "restoration" entry was not made for 2020 and will not be made going forward due to weighted average cost of inventory accounting. For accounting records, RECs are expensed using the weighted average cost of inventory. There may still need to be a true-up for the difference between estimated consumer usage and actuals for December that are not available at the time of monthly year-end close or any adjustments made due to metering adjustments for the year. The true-up for December typically will be minimum due to the timing of the estimate similar to each month.
>
> Weighted average cost of inventory methodology is inline with FERC guidelines. Per *Ameren Illinois Company, 170 FERC ¶ 61,627, (Mar. 27, 2020)* FERC found that RECs should fall under Order No. 552. *18 CFR pt. 101, General Instruction 21D* states that "Issuances from inventory from inventory included in Account 158.1 and Account 158.2 shall be accounted for on a vintage basis using a monthly weighted-average method of cost determination." This language was written for NOx and SO2 allowances which had specific vintage years the RECs do not have attributed to them. The vintage year language is not relevant to RECs as it was with NOx and SO2 allowances.

It appears that the Company has taken steps to improve forecasting and monthly REC usage estimate procedures to avoid the need to make inventory adjustments after retirements for RPS compliance by removing RECs from inventory and/or reducing REC costs in inventory. However, since the foregoing narrative was developed and provided to Larkin on November 10, 2021, there has not been sufficient time to determine whether the process described above has been implemented by AES Ohio, thus eliminating the need to make adjustments to inventory after RECs have been retired for RPS compliance. Therefore, Larkin recommends that during the next audit of AES Ohio's AEC, the auditor conducting that audit review the relevant documentation and make inquiries to determine whether the Company has in fact adhered to the process set forth above. In addition, the next auditor of AES Ohio's AEC should review any true-ups that were made for the difference between estimated consumer usage and actuals for

December that were not available at the time of monthly year-end close or any adjustments made due to metering adjustments for the year.

5) A Review of Any Other Specific Items as Identified by the Commission or Staff

To our knowledge, no other items were identified by the Commission or Staff.

Memorandum Of Findings And Recommendations

Our findings and recommendations are summarized in Chapter 1.