BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Review of the Power Purchase Agreement Rider of Ohio Power Company for 2018	)))	Case No. 18-1004-EL-RDR
In the Matter of the Review of the Power Purchase Agreement Rider of Ohio Power Company for 2019	)))	Case No. 18-1759-EL-RDR

DIRECT TESTIMONY OF
JASON M. STEGALL
ON BEHALF OF
OHIO POWER COMPANY

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I. PERSONAL DATA

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Jason M. Stegall, and my business address is 1 Riverside Plaza, Columbus, Ohio 43215.

Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

A. I am employed by American Electric Power Service Corporation (AEPSC) as Manager of Regulatory Pricing & Analysis. AEPSC supplies engineering, financing, accounting, planning, advisory, and other services to the subsidiaries of the American Electric Power (AEP) system, one of which is Ohio Power Company (AEP Ohio or the Company).

Q. WOULD YOU PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

A. I graduated from the Virginia Polytechnic Institute and State University with a Bachelor of Science degree in Accounting in 1997. I earned my Master's in Business Administration from the Ohio State University in 2011. In addition, I attended the 2018 EEI Transmission and Wholesale Markets School. In 1997, I joined AEPSC as an Accountant. Since that time, I held several positions in Accounting and Risk Management before joining the Regulatory Services department in 2009. I have progressed through various positions and was promoted to my current position of Manager of Regulatory Pricing and Analysis in December 2017.

Q. WHAT ARE YOUR RESPONSIBILITIES AS MANAGER OF REGULATORY PRICING AND ANALYSIS?

A. My responsibilities include the oversight and support of all fuel and purchased power-related filings for the AEP System operating companies, supporting the AEPSC Fuel Procurement and AEPSC Commercial Operations organizations, and supporting traditional cost-of-service and rate design projects.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN ANY REGULATORY PROCEEDINGS?

A. Yes. I have testified before the Indiana Utility Regulatory Commission, the Public Service Commission of Kentucky, the Michigan Public Service Commission, the Oklahoma Corporation Commission, and the Public Utility Commission of Texas.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to address the Audit Report issued by London Economics International LLC (Auditor) and to respond to statements made in the comments filed by the Office of the Ohio Consumers' Council (OCC), the Kroger Company and the Ohio Manufacturers' Association Energy Group (Kroger-OMAEG), and the Natural Resources Defense Council (NRDC). On behalf of AEP Ohio, I will provide an overview of the Company's relationship with the Ohio Valley Electric Corporation (OVEC), explain some aspects of market operations in the PJM Regional Transmission Organization (PJM), and discuss the Company's implementation of the Power Purchase Agreement Rider (PPA Rider).

III. OVEC AND ITS GENERATING FACILITIES

Q. PLEASE DESCRIBE OVEC.

A. OVEC was formed in 1952 by regional utilities (Sponsoring Companies) for the purpose of providing electric service to the uranium enrichment facility in southern Ohio (Facility) under a power supply agreement between OVEC and the United States of America, through the predecessor to the Secretary of Energy, statutory head of the Department of Energy (DOE).

The OVEC generation stations are Clifty Creek Station, comprising six coal-fired generating units, each with a winter capability of 200 MW for a site total of 1,200 MW, and Kyger Creek Station, comprising five coal-fired generating units, each with a capability of 199 MW for a site total of 995 MW. Thus, the generating capability of all OVEC units totals 2,195 MW. AEP Ohio receives 19.93 percent of this energy and capacity, or approximately 437 MW (before losses).

Q. PLEASE DESCRIBE THE INTER-COMPANY POWER AGREEMENT (ICPA).

A. On July 10, 1953, OVEC and its Sponsoring Companies signed the ICPA, whereby OVEC agreed to sell and the Sponsoring Companies agreed to purchase certain power and energy produced by OVEC in excess of that required to serve the DOE Facility. Each successive amendment to the ICPA has been submitted to the Federal Energy Regulatory Commission (FERC) as a wholesale power sales agreement under Section 205 of the Federal Power Act. Upon DOE's termination of the its power supply agreement with OVEC effective April 30, 2003, the Sponsoring Companies became entitled under the terms of the ICPA to all of OVEC's net power and energy.

On March 23, 2011, OVEC filed with FERC an Amended and Restated ICPA, dated September 10, 2010, among OVEC and other parties. No protests or adverse comments were received and the submittal was accepted for filing by FERC on May 23, 2011. The only substantive change to the ICPA that was part of the 2011 filings was to extend the term of the ICPA from March 13, 2026, to June 30, 2040.

The ICPA is not a simple power purchase agreement. It is a long-term agreement filed at FERC and approved by the Sponsoring Companies. This agreement requires the Sponsoring Companies to pay all of OVEC's costs and grants them the ability to utilize the power and energy from OVEC.

Q. PLEASE DESCRIBE OVEC'S GOVERNANCE AND MANAGEMENT STRUCTURE.

A. OVEC is governed by a Board of Directors that oversees the organization from a strategic level. The Board is comprised of representatives of the owners of OVEC, many of which are Sponsoring Companies. The Board provides strategic direction to the organization.

In addition, established under and described in Section 9.05 of the ICPA, an Operating Committee has been established that includes ten members, one member for each parent company of a sponsoring company and one member from OVEC. The Operating Committee's role is to establish the necessary framework for OVEC's management to conduct its daily operations on behalf of the Sponsoring Companies, with an approval threshold of two-thirds of its members for all decisions. The Operating Committee considers, updates, and approves the OVEC Operating Procedures, a document that articulates the decisions of the Operating Committee on matters such as unit commitment practices, minimum generating unit output, and energy scheduling. The

Operating Committee also makes recommendations to the Board of Directors regarding major decisions, with a recent example being the recommendation to join PJM.

Q. DOES AEP OHIO HAVE THE ABILITY TO UNILATERALLY CONTROL OR FORCE THE OPERATIONAL DECISIONS OF OVEC?

A. No. As stated above, the procedures for the scheduling of available energy are set by the Operating Committee. AEP Ohio has one vote on behalf of itself and its affiliates.

Q. WHO MANAGES THE OVEC FACILITIES' DAY-TO-DAY OPERATIONS?

A. OVEC manages and operates the Kyger Creek and Clifty Creek facilities as well as its transmission facilities. None of the Sponsoring Companies' personnel participate in the daily operation of these facilities. The Sponsoring Companies are limited to participation through the Board of Directors and the Operating Committee.

Q. HOW DOES AEP OHIO INTERACT WITH OVEC?

A. As a sponsoring company, AEP Ohio, with its affiliates Indiana Michigan Power Company and Appalachian Power Company, has representation on OVEC's Board of Directors. In addition, the three companies collectively have one vote on the Operating Committee and participate in all Operating Committee meetings through a designated representative.

Q. WHO IS RESPONSIBLE FOR OFFERING AEP OHIO'S SHARE OF ENERGY AND CAPACITY IN THE PJM MARKETS?

A. AEP Ohio is responsible for offering its share of OVEC capacity into the PJM Base Residual Auction and successive Incremental Auctions. OVEC is responsible for offering the energy and ancillary services of the Clifty Creek and the Kyger Creek units into the PJM energy and ancillary markets on behalf of the Sponsoring Companies.

IV. PPA RIDER

Q. WHAT WAS THE PPA RIDER?

A. The PPA Rider was the mechanism, authorized by this Commission, to enable the Company to recover the charges incurred under the ICPA during the audit period, net of the revenues the Company receives from selling the associated energy, capacity, and ancillary services into the PJM market. In situations where the Company's charges exceed the associated revenues received from PJM, the rider would result in a charge to the Company's customers. In situations where those revenues exceed the Company's charges, the rider would result in a credit to customers.

Q. HOW DID THE PPA RIDER FUNCTION?

A. During the Audit Period, the PPA Rider tracks, on a quarterly basis, all charges from OVEC net of the revenues received from the selling of the Company's share of OVEC's capacity, energy, and ancillary services into the applicable PJM markets. The revenue requirement is established each quarter on a forward-looking basis and includes a component for the true-up of the prior quarter.

V. AUDIT OF THE PPA RIDER

Q. PLEASE DESCRIBE THE AUDIT OF THE PPA RIDER.

A. The Commission's 2018-2019 audit of the PPA Rider was intended to examine the costs of the ICPA and revenues from the sale of power and to ensure that accounting procedures accurately and properly allocate revenues to customers. The Commission's Auditor conducted a robust investigation and evaluated responses to extensive data requests in order to evaluate the costs incurred by the ICPA. In reviewing the prudence issues as part of the audit, the Audit Report determined that, during the 2018-2019 period, the costs and the activities that generated revenues were prudently incurred and did not make any recommendations for exclusions or disallowances based on a finding of imprudence.

VI. PARTICIPATION IN THE PJM CAPACITY MARKET

Q. PLEASE EXPLAIN HOW AEP OHIO MANAGED ITS SHARE OF OVEC CAPACITY DURING THE AUDIT PERIOD.

A. As noted in the Audit Report, AEP Ohio offered its share of OVEC capacity into the Base Residual Auction and subsequent Incremental Auctions covering the PJM 2018/2019 Planning Year and the PJM 2019/2020 Planning Year. PJM Planning Years run from June 1 through May 30 of the following year. In both Planning Years, AEP Ohio offered its capacity into the RTO Locational Delivery Area and the capacity that was offered was cleared in either the Base Residual Auction or one of the subsequent Incremental Auctions to produce approximately $40.2 million in revenues during the audit period.

Q. DID THE AUDIT REPORT MAKE ANY CONCLUSIONS WITH RESPECT TO THE SALE OF OVEC CAPACITY IN PJM?

A. Yes. The Auditor determined that the Company's bidding strategy in the PJM capacity markets was prudent, accommodated the Company's risk exposure, and resulted in the entirety of the Company's share of OVEC capacity being cleared.[1]

VII. COMMITMENT AND DISPATCH IN THE PJM ENERGY MARKET

Q. PLEASE DESCRIBE THE ENERGY MARKETS IN PJM.

A. PJM operates two energy markets, the Day-Ahead market and the Real-Time market. The Day-Ahead market determines, on a daily basis, PJM's level of demand for each hour of

[1] Audit Report, pg. 49

the following day and uses a computerized economic dispatch model to satisfy the hourly demand at the lowest possible cost while taking into account the cost profile of individual generating units and the availability of transmission. The Real-Time market operates to satisfy surpluses and deficits in both the demand and energy settled in the Day-Ahead market.

In order to participate in these markets, on a daily basis, generators supply PJM with a large volume of data that includes unit commitment status, offer curves that cover per-unit costs for the range of output from economic minimum to economic maximum, and market parameters. The market parameters supplied to PJM include, but are not limited to, a unit's startup cost, startup time in hours, how quickly it can ramp up energy production, and other characteristics defined in PJM protocols. PJM protocols are established in various documents such as the PJM tariff and the manuals published on www.pjm.com.

Q. PLEASE EXPLAIN THE CONCEPT OF UNIT COMMITMENT.

A. As part of its daily submission to the PJM Day-Ahead energy market, OVEC must provide a unit commitment designation for each unit at both of its generating facilities. The designations are limited to Economic, Must-Run, Emergency, or Not Available. Economic units are committed and dispatched by PJM via its economic dispatch model described above. Must-run units, also called self-committed units or self-scheduled units, are committed into the Day-Ahead market by their owner to run at their economic minimum, although the PJM dispatch model can dispatch them at a level above their economic minimum. Emergency indicates that a unit is available only for emergency dispatch. Not Available units are in an outage and incapable of delivering energy into the market.

Q. HOW DOES OVEC COMMIT ITS UNITS IN PJM?

A. OVEC's commitment starts with the OVEC Energy Scheduling department, which has an internal daily call every non-holiday weekday morning to review unit status and availability, including applicable unit derates, potential unit liabilities, and outage status and expected unit return-to-service dates. OVEC then uses this information to formulate and submit the day-ahead unit offers into the PJM market. In advance of the morning call, the OVEC Energy Scheduling department also receives a daily unit status report from each plant. Information in this report is updated, as appropriate, based on real-time unit operating status during the morning calls. A similar, but less formal, daily meeting takes place on weekends and holidays with OVEC's system operations personnel and a contractor that provides certain functions during weekends and holidays. OVEC then updates day-ahead offers, if necessary, based on conditions at that time.

Units are offered into the PJM market consistent with the sponsor approved Operating Committee procedures. With some exceptions, units that are in service and expected to be available in the day-ahead market are offered as Must-Run. Potential exceptions could include unusual non-market related events such as coal shortages and/or some form of force majeure event outside of OVEC's control. During Ozone Season Unit 6 at Clifty Creek is assigned an opportunity cost associated with its NOx emissions profile and is offered as Economic. As I explain below, units offered as Must-Run earned revenues that covered their fuel costs during the Audit Period.

Q. IS OVEC'S USE OF THE MUST-RUN COMMITMENT A REASONABLE MARKET COMMITMENT STRATEGY?

A. Yes. In general, there are many factors taken into account when determining unit commitment. Although the PJM Day-Ahead market is only concerned with the next operating day, generators in PJM evaluate economics for an extended period and may forecast positive economics over the longer term. Coal-fired units have obligations under their fuel contracts that may require them to run or reduce their ability to run in cases where they have an unsafe overabundance of coal or a risk of running out of coal. Generating units also have mandatory environmental testing and PJM-mandated testing that require them to be online and performing, regardless of the state of the market at the time. In addition, generating units have operating limitations and requirements that limit how quickly they can be shut down and restarted and how quickly they can ramp to a stable level of output.

OVEC's units, as coal-fired generating units designed for baseload generation, are not capable of instantaneous startup and shutdown and, as wet-bottom coal units, are not designed to be cycled on and off frequently. In addition, shutting off a unit, starting a unit, and ramping a unit to a higher level of output each come with risks and significant costs. Consequently, it may be more economical in the long run to keep these units on even if they lose money in the short run. As an example, it may be cheaper to keep OVEC units online during a weekend even though prices are generally lower and OVEC may appear to be selling at a loss, because the expense to restart units Monday morning is greater than the loss that would be realized by keeping the units on.

In addition, any cycling of a unit comes with operational and financial risk. A unit may fail to start due to thermal cycles or other cycling issues, causing potential damage, additional maintenance expense, and the loss of market revenues. The risk of cycling, while difficult to quantify, must still be factored into commitment decisions and the unit commitment selected.

Q. WAS THE USE OF THE MUST-RUN COMMITMENT STATUS REASONABLE FOR THE AUDIT PERIOD?

A. Yes. As stated above, during 2018-2019, this commitment status allowed OVEC to manage its units in a way that balanced its provision of economic value to its sponsors and the operating characteristics of the units as well as OVEC's provision of contracted energy and capacity for all of its sponsors. The Sponsoring Companies range from utilities not participating in regional transmission organizations, fully integrated utilities, and the Ohio-based sponsors.

AEP Ohio's customers received a net benefit of $32 million resulting from its participation in PJM energy markets using the Must-Run commitment status during the Audit Period. This benefit is the result of $146.5 million of energy market revenues earned from selling the energy into PJM netted against the $114.8 million of energy charges billed under Section 5.02 of the ICPA.

The net revenues earned in the Audit Period do not necessarily mean that a commitment strategy using Must-Run will always be reasonable. Regardless of whether there were net revenues earned during a given period, any evaluation of the commitment decision still must account for other factors, such as the cost and risk to cycle a unit, its requirements for environmental or PJM-mandated testing, the amount of time necessary to shut down and restart the unit, its ramp rate, and, in the case of OVEC, the needs of its non-PJM Sponsoring Companies.

Q. DO YOU AGREE WITH THE AUDITOR'S RECOMMENDATION THAT OVEC CAREFULLY CONSIDER WHEN AND WHETHER THE MUST-RUN STRATEGY IS OPTIMAL?[2]

A. Yes. The Operating Committee in coordination with OVEC management has the ability to implement an economic commitment strategy, as appropriate, in response to market trends, operating considerations or other circumstances. However, offering a unit at all times with an Economic commitment status can either cause the unit to not be started when it is economic to do so or cause excessive cycling or shutdown when it is not economic to leave the unit online. As stated above, the focus of the PJM Day-Ahead market is the next operating day, and unit parameters such as startup time, minimum up time, and minimum downtime may cause PJM's economic dispatch algorithm to shut the unit down or leave it offline. As a result, OVEC units would not be dispatched when, over the longer period, they may produce positive net revenues for AEP Ohio's customers.

Q. DO YOU BELIEVE THAT OVEC WOULD CHANGE THE COMMITMENT STATUS OF ITS UNITS IF NEEDED?

A. Absolutely. OVEC's Operating Committee would change to an Economic commitment status if there was a substantial change in the market and there was a sustained period of low prices or other circumstances develop that warrant consideration of an Economic commitment.

Q. IS THE OCC CORRECT WHEN IT INDICATES THAT OVEC HAD NEGATIVE OPERATING REVENUES IN 2019?

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[2] Audit Report , pg. 53.

A. No. AEP Ohio's share of OVEC net revenues, using the same calculation used above for the entire Audit Period, results in a $6.1 million credit during 2019. Even when including the transmission charges billed under Section 5.04 of the ICPA, AEP Ohio's net energy revenues are still $2.9 million. When evaluating self-commitment decisions, it is important to note these transmission costs would be incurred by OVEC and billed to the Sponsoring Companies regardless of the level of generation and should not be included in such an evaluation.

Q. OCC CITES STUDIES PERFORMED BY THE MARKET MONITORS OF OTHER REGIONAL TRANSMISSION ORGANIZATIONS AS A BASIS FOR REJECTING THE USE OF THE MUST-RUN DESIGNATION. DO YOU AGREE?

No. OCC cited portions of a report produced by the market monitor of the Midcontinent Independent System Operator (MISO) while ignoring portions that add context to any conclusions that can be drawn when applying them to OVEC. The MISO study reports that "less than 10 percent of the coal commitments between 2016 and 2019 were self-commitments by owners on days when the units were not profitable and were not likely to be profitable given prevailing prices."[3] The report, however, is silent on whether any of the facilities operated by these utilities are jointly owned by multiple utilities or operating in service territories outside of MISO. The report goes on to say that "this analysis indicates that owners of coal resources generally started them at times when the resources would initially be profitable to operate."[4] Unlike the OCC, however, the MISO market monitor recognizes the effect of unit cycling, indicating that market conditions may justify

[3] "A Review of the Commitment and Dispatch of Coal Generators in MISO," pg. 4.

[4] *Id.* at 5.

a situation when a generator may "incur a small loss to stay online and avoid the costs of 'cycling the resource', i.e., shutting the unit down and starting it back up later."[5]

OCC also cites a report produced by the market monitor of the Southwest Power Pool (SPP) report without proper context. OCC cited one recommendation made by the SPP market monitor, to reduce self-commitments,[6] while ignoring the companion recommendation that SPP modify its market design to add an additional day to the market optimization period.[7] The report goes on to note that units with longer startup times, largely coal-fired units, tend to be the ones that self-commit.[8] While the SPP market monitor notes that units should reduce self-commitment, it recognizes that changes in market structure are required to achieve that goal.

VIII. <u>OTHER INTERVENORS' RECOMMENDATIONS</u>

Q. SHOULD AEP OHIO CONDUCT A "RETROACTIVE ANALYSIS OF OVEC'S HOURLY OPERATIONS," AS SUGGESTED BY KROGER-OMAEG?[9]

A. No. Kroger-OMAEG recommends that the Commission require AEP Ohio to conduct a retroactive analysis for the Audit Period or fully refund all charges under the PPA Rider. Kroger-OMAEG's recommendation evinces multiple errors in its understanding.

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[5] *Id*. at 6.

[6] Initial Comments to Protect Consumers from AEP's Coal Plant Charges by Office of the Ohio Consumer's Counsel, pg.14.

[7] Southwest Power Pool Market Monitoring Unit, Self-Committing In SPP Markets: Overview, Impacts and Recommendations at 2 (December 2019), available at: https://assets.documentcloud.org/documents/6573451/Spp-Mmu-Self-Commitment-Whitepaper.pdf.

[8] *Id*. at 20.

[9] Joint Comments of the Kroger Co. and The Ohio Manufacturers' Association Energy Group ("Kroger-OMAEG Comments"), pg. 4.

First, as stated above, OVEC is responsible for operating the generating units and submitting all required information to PJM on a daily basis in order to participate in the energy markets. AEP Ohio does not possess the necessary information to conduct an analysis. Secondly, if such an analysis were conducted, it would need to incorporate all information available at the time the decision was made, such as market price forecasts and load forecasts. Such an analysis would also have to take into account operational characteristics like the OVEC units' minimum down time, their startup time, their startup cost, and the added risk and cost associated with cycling a baseload unit. It would also need to take into account days when units were running in order to satisfy mandatory environmental or RTO testing. An analysis that took into account all of that information would be prohibitively difficult, expensive, and time-consuming without any guarantee of being able to accurately evaluate the decisions made at the time. Finally, since no one operating in PJM has full access to the same information as PJM's economic dispatch model, any subsequent analysis would have no way to determine the effect of reduced generation on regional reliability or transmission congestion.

Q. SHOULD THE OVEC UNITS BE TRANSITIONED TO SEASONAL OPERATION, AS OCC RECOMMENDS?

A. No. Since AEP Ohio sells its OVEC capacity into the PJM Base Residual Auction and subsequent Incremental Auctions, PJM requires OVEC to continue to offer its share of OVEC units' energy into the PJM Day-Ahead energy market. If OVEC transitioned to seasonal operation, it would no longer be a capacity resource and eligible to earn revenues in the capacity market, which, as stated above, accounted for approximately $40.2 million of additional revenues to AEP Ohio during the Audit Period.

Furthermore, as a capacity resource, AEP Ohio's purchased capacity is subject to capacity performance penalties should a performance event occur and the Company's capacity is not able to perform. During the Audit Period, such an event occurred on October 2, 2019. Had OVEC switched to seasonal operation, it would not have been available during this event and AEP Ohio would have been subject to capacity performance penalties.

OCC cited the Dolet Hills plant, owned by Company affiliate Southwestern Electric Power Company (SWEPCO), as a unit that transitioned to seasonal operation, although OCC incorrectly stated that transition was a measure to reduce costs. The change to seasonal operation resulted from a reduction in the mining operations for the mine that was the plant's sole source of lignite and the shift to seasonal operation included an agreement between the plant's two owners, SWEPCO and Central Louisiana Electric Company.[10] Unlike Dolet Hills, neither of OVEC's generating facilities is limited to one source of fuel. Also, unlike Dolet Hills, OVEC has several more owners that would need to agree to a change in operation.

Q. DID THE AUDITOR ERR IN FAILING TO NOTE APRIL 2019 AS SIGNIFICANT IN ITS EVALUATION OF FUEL INVENTORIES, AS RECOMMENDED BY KROGER-OMAEG?

A. No. While Kroger-OMAEG cites a portion of the Audit Report's findings on OVEC's coal inventories,[11] it selectively ignores the rest of the same section that adds context. Specifically, the Audit Report states:

[10] Public Utility Commission of Texas Docket No. 50997, Rebuttal Testimony of Thomas Brice, Page 12.

[11] Kroger-OMAEG Comments, pg. 7.

> *That inventory is not consistent with targets may be a result of inaccurate coal burn forecasts or* management may have taken delivery of coal which was known not to be needed, *but which the organization was contractually obligated to take.*[12]

The Auditor's evaluation indicates the reliance on a forecast that differs from the actual burn realized at the plants in 2019. While the Auditor recommends that OVEC focus on improving its coal forecast, it did not find any evidence of imprudence. The Audit Report does note the sharp decline in generation in April 2018 vs. April 2019 for the Clifty Creek plant and the Kyger Creek plant in Figures 42 and 44, respectively. More importantly, while the inventory levels did increase in 2019 due to a difference in the forecasted level of coal burn compared to the actual level, OVEC does not bill its sponsoring companies for its coal until the month when that coal is consumed. Accordingly, any coal inventory surplus could not affect the rates AEP Ohio customers paid under the PPA Rider.

Q. SHOULD THE COMMISSION IMPOSE A CAP OF $0 ON ENVIRONMENTAL SPENDING, AS RECOMMENDED BY THE NRDC?

A. No. Any cap on future spending is outside of the scope of the audit. As noted in the Audit Report, all capital expenditures exceeding $100,000 during the Audit Period were evaluated under a 6-step process that concludes with a review by OVEC's Board of Directors. The Auditor noted the capital projects it examined "were necessary for economic or safety purposes, went through a cost-benefit analysis (with an average payback timeline of around 4 years), and were compared to alternatives in terms of

[12] Audit of the OVEC Power Purchase Agreement Rider of Ohio Power Company, pg. 75. Emphasis added to portions omitted in Kroger-OMAEG reference.

practicality and cost."[13] NRDC makes no accommodations for any projects necessary for the safety of OVEC personnel nor for compliance with applicable laws. Finally, the NRDC fails to note that OVEC does not earn a return on capital, which means that OVEC has no earnings incentive to invest in new projects.

IX. CONCLUSION

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

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[13] Audit of the OVEC Power Purchase Agreement Rider of Ohio Power Company, pg. 93.