THE PUBLIC UTILITIES COMMISSION OF OHIO

IN THE MATTER OF THE REVIEW OF THE POWER PURCHASE AGREEMENT RIDER OF OHIO POWER COMPANY.	**CASE NO. 18-1003-EL-RDR**

FINDING AND ORDER

Entered in the Journal on April 20, 2022

I. SUMMARY

{¶ 1} The Commission adopts, to the extent set forth in this Finding and Order, the recommendations in the audit report regarding Ohio Power Company d/b/a AEP Ohio's Power Purchase Agreement Rider for the period of June 1, 2016, through December 31, 2017.

II. PROCEDURAL BACKGROUND

{¶ 2} Ohio Power Company d/b/a AEP Ohio (AEP Ohio or the Company) is an electric distribution utility as defined in R.C. 4928.01(A)(6) and a public utility as defined in R.C. 4905.02, and, as such, is subject to the jurisdiction of this Commission.

{¶ 3} R.C. 4928.141 provides that an electric distribution utility shall provide consumers within its certified territory a standard service offer (SSO) of all competitive retail electric services necessary to maintain essential electric services to customers, including a firm supply of electric generation services. The SSO may be either a market rate offer in accordance with R.C. 4928.142 or an electric security plan (ESP) in accordance with R.C. 4928.143.

{¶ 4} In Case No. 13-2385-EL-SSO, et al., the Commission modified and approved AEP Ohio's application for an ESP for the period of June 1, 2015, through May 31, 2018, pursuant to R.C. 4928.143. *In re Ohio Power Co.*, Case No. 13-2385-EL-SSO, et al. (*ESP 3 Case*), Opinion and Order (Feb. 25, 2015), Second Entry on Rehearing (May 28, 2015), Fourth Entry on Rehearing (Nov. 3, 2016), Seventh Entry on Rehearing (Apr. 5, 2017). Among other matters, the Commission authorized AEP Ohio to establish a placeholder

Power Purchase Agreement (PPA) Rider and required AEP Ohio to justify any future request for cost recovery in a separate proceeding. *ESP 3 Case*, Opinion and Order (Feb. 25, 2015) at 20-22, 25-26.

{¶ 5} Subsequently, in Case No. 14-1693-EL-RDR, et al., the Commission modified and approved a stipulation and recommendation pertaining to AEP Ohio's proposal to populate the placeholder PPA Rider approved in the *ESP 3 Case*. *In re Ohio Power Co.*, Case No. 14-1693-EL-RDR, et al. (*PPA Rider Case*), Opinion and Order (Mar. 31, 2016), Second Entry on Rehearing (Nov. 3, 2016), Fifth Entry on Rehearing (Apr. 5, 2017). The Commission directed that the PPA Rider be subject to an annual audit. *PPA Rider Case*, Opinion and Order (Mar. 31, 2016) at 89-90.

{¶ 6} By Entry dated June 13, 2018, the Commission directed Staff to issue a request for proposal to acquire audit services for the initial audit of AEP Ohio's PPA Rider for the period of June 1, 2016, through December 31, 2017.

{¶ 7} On July 11, 2018, the Commission selected Vantage Energy Consulting, LLC (Vantage) to conduct the prudency and performance audit of AEP Ohio's PPA Rider. Vantage filed its audit report under seal on January 11, 2019. A redacted version of the audit report was filed in the public docket on August 8, 2019.

{¶ 8} By Entry dated December 13, 2019, the attorney examiner established a procedural schedule for this matter, with motions for intervention due by January 10, 2020, and initial and reply comments due by January 17, 2020, and February 7, 2020, respectively.

{¶ 9} Timely motions to intervene in this proceeding were filed on various dates by Industrial Energy Users-Ohio (IEU-Ohio), Ohio Manufacturers' Association Energy Group (OMAEG), The Kroger Co. (Kroger), and Ohio Consumers' Counsel (OCC). No memoranda contra the motions for intervention were filed. The Commission finds that the motions are reasonable and should be granted.

{¶ 10} In accordance with the established procedural schedule, initial and reply comments were filed by AEP Ohio, OCC, and OMAEG/Kroger.

III. DISCUSSION

A. Summary of the Audit Report Recommendations and Comments in Response

{¶ 11} Vantage offers a total of 12 recommendations in various parts of its audit report, which are discussed below, along with the parties' comments in response.

1. PART II (DISPOSITION OF ENERGY AND CAPACITY), RECOMMENDATION 1 (MEDIUM PRIORITY)

{¶ 12} Vantage recommends that, at least once each year, the Ohio Valley Electric Corporation (OVEC) Operating Committee meetings be dedicated to the review of the prior year's operational and financial performance and address strategies to improve such performance in the following year. This review should be chronicled in the meeting minutes. (Audit Report at 6, 19.)

{¶ 13} AEP Ohio responds that this recommendation should not be adopted as written, because it is overly specific and infringes on the Company's management and discretion. With respect to the underlying substantive issue relating to this recommendation, AEP Ohio states that the OVEC Operating Committee, per its Rules of Procedure, is required to meet at least annually, with an agenda that includes a review of operating performance, financial results, and forecasts that is also provided to the sponsors upon request. AEP Ohio notes that the minutes from the Operating Committee's annual meetings, which were provided to the auditor in a data request response, reflect a review of operating performance, financial results, and forecasts. AEP Ohio, therefore, submits that no additional action is required. (AEP Ohio Comments at 2.)

{¶ 14} In response to AEP Ohio's objection, OMAEG and Kroger assert that OVEC's operations are subject to prudency audits by the Commission, which requires that detailed minutes of the OVEC Operating Committee's meetings be taken and made available for the Commission's review (OMAEG/Kroger Reply Comments at 2-3).

{¶ 15} OCC responds that the Commission should reject AEP Ohio's position, as Vantage's recommendation pertains to the core purpose of the audit, which is to determine whether the PPA Rider charges assessed to customers were prudent based on the operational and financial performance of the OVEC plants. OCC also contends that Vantage's recommendation that OVEC hold a single meeting once per year is not a burdensome requirement. (OCC Reply Comments at 2-3.)

{¶ 16} The Commission agrees that it would be reasonable for the OVEC Operating Committee, on an annual basis, to review OVEC's operational and financial performance for the prior year, address strategies to improve its performance in the future, and document the discussion of the committee in the meeting minutes. To the extent that these steps are not already taken by the OVEC Operating Committee pursuant to its Rules of Procedure, we direct AEP Ohio, at the next opportunity, to bring the matter to the other OVEC sponsors for consideration.

2. PART II (DISPOSITION OF ENERGY AND CAPACITY), RECOMMENDATION 2 (MEDIUM PRIORITY)

{¶ 17} Vantage recommends that the OVEC Operating Committee, in addition to its periodic meetings that address issues that are critical at that time, formalize the process by which alternative opportunities are raised by sponsoring companies (Audit Report at 6, 19).

{¶ 18} AEP Ohio responds that this process is documented in the Rules of Procedure of the Operating Committee, which state that special meetings may be called by an officer of the committee or by the request of two members of the committee. AEP Ohio notes that, as one of several members, it does not control the activities of the committee and can only make its own recommendation to the OVEC sponsors to include this additional information. (AEP Ohio Comments at 2-3.)

{¶ 19} OCC maintains that AEP Ohio should be required to comply with Vantage's recommendation or, at a minimum, to propose the recommendation to the OVEC Operating Committee (OCC Reply Comments at 3-4).

{¶ 20} OMAEG and Kroger respond that the fact that AEP Ohio lacks control over the OVEC Operating Committee should not prohibit scrutiny of the Company's market participation decisions. According to OMAEG and Kroger, AEP Ohio cannot seek to recover costs associated with OVEC and OVEC operations as prudently incurred, while also attempting to avoid prudency review due to its lack of input and control with respect to the other OVEC sponsors. OMAEG and Kroger conclude that, to the extent that nonparticipation is due to an imprudent decision involving AEP Ohio, cost recovery should be prohibited. (OMAEG/Kroger Reply Comments at 3.)

{¶ 21} In support of its recommendation, Vantage states that opportunities raised by the sponsoring companies that can enhance performance of the OVEC assets in terms of operational, financial, and economic efficiency should be investigated and fully vetted. The Commission agrees that it would be reasonable for the OVEC Operating Committee to have a formal process by which alternative opportunities are able to be raised by the sponsors. We, therefore, direct AEP Ohio, at the next opportunity, to raise this issue with the other OVEC sponsors for deliberation.

3. PART II (DISPOSITION OF ENERGY AND CAPACITY), RECOMMENDATION 3 (MEDIUM PRIORITY)

{¶ 22} Vantage recommends that AEP Ohio prepare a report for the Commission detailing the potential ancillary services that the OVEC plants could provide to PJM Interconnection, LLC (PJM), along with the projected annual revenue. In addition, the report should discuss the reasons why the plants are not suitable to provide certain ancillary services, if applicable. (Audit Report at 6, 25.)

{¶ 23} AEP Ohio responds that OVEC discussed the ancillary service market at its Operating Committee meeting in May 2019 and that OVEC plans to conduct a study to determine the potential opportunities and operational risks associated with participating in this market (AEP Ohio Comments at 3).

{¶ 24} OMAEG and Kroger support prudent entry into PJM's ancillary service market by OVEC, as well as Vantage's recommendation for AEP Ohio to file a report with the Commission on this issue (OMAEG/Kroger Reply Comments at 3).

{¶ 25} We direct AEP Ohio to file with the Commission, upon completion, a copy of OVEC's study of the potential opportunities and operational risks associated with participating in the ancillary service market.

4. Part III (Fuel and Variable Cost Expense), Recommendation 1 (High Priority)

{¶ 26} Vantage recommends that Staff continue to aggressively monitor AEP Ohio's quarterly filings pursuant to the findings on page 89 of the Commission's March 31, 2016 Opinion and Order in the *PPA Rider Case* for completeness, computational accuracy, and consistency with any prior Commission determinations regarding the adjustments (Audit Report at 6, 38-39).

{¶ 27} AEP Ohio acknowledges that, in one quarterly filing outside of the audit period, the forecasted kilowatt hours used to determine the rate were not changed from the previous filing. AEP Ohio states that it agrees that there was an error in the forecasted kilowatt hour data, as Vantage noted. AEP Ohio further states that the PPA Rider is subject to a true-up process, which ensures that customers are only charged for the actual costs to be collected through the rider. AEP Ohio adds that, following the issuance of the audit report, the Commission adopted the Legacy Generation Resource (LGR) Rider under

R.C. 4928.148 to collect the net costs associated with the OVEC units. *In the Matter of Establishing the Nonbypassable Recovery Mechanism for Net Legacy Generation Resource Costs Pursuant to R.C. 4928.148*, Case No. 19-1808-EL-UNC, Entry (Nov. 21, 2019). AEP Ohio notes that, as part of the process established for the LGR Rider, the Ohio electric distribution utilities work with Staff to calculate the rates, which will help to ensure that such errors are not reflected in future filings relating to OVEC cost recovery. (AEP Ohio Comments at 3-4.)

{¶ 28} We find that Vantage's recommendation is moot, given that AEP Ohio's PPA Rider is no longer in effect and, accordingly, the Company does not submit quarterly adjustment filings for the PPA Rider. AEP Ohio, however, should continue to work with Staff to calculate proposed LGR Rider rates, in order to minimize any errors in future LGR Rider filings pertaining to OVEC cost recovery.

5. Part III (Fuel and Variable Cost Expense), Recommendation 2 (High Priority)

{¶ 29} Vantage recommends that AEP Ohio take certain actions to minimize the effects on rates of over-/under-recovery balances and promote rate stability (Audit Report at 6, 39).

{¶ 30} AEP Ohio responds that, after the audit report was issued, the Commission approved the LGR Rider to collect the costs or credits of the OVEC units, which changed the timing of the costs and recovery and rendered this recommendation moot (AEP Ohio Comments at 4).

{¶ 31} The Commission agrees that Vantage's recommendation is moot, in light of the subsequent expiration of the PPA Rider. To the extent that similar rate stability issues arise with respect to the LGR Rider, AEP Ohio should work with Staff to minimize, to the extent feasible, any adverse effects on the LGR Rider rates.

6. PART V (ENVIRONMENTAL CONTROLS), RECOMMENDATION 1 (HIGH PRIORITY)

{¶ 32} Vantage recommends that AEP Ohio continue to closely monitor Environmental Protection Agency (EPA) regulatory activities as associated with the finalization of Effluent Limitation Guidelines (Audit Report at 6, 75).

{¶ 33} AEP Ohio responds that it agrees with this recommendation and that no further action is required, as the monitoring is already occurring (AEP Ohio Comments at 4).

{¶ 34} The Commission finds that AEP Ohio should continue to comply with Vantage's recommendation.

7. PART V (ENVIRONMENTAL CONTROLS), RECOMMENDATION 2 (UNSPECIFIED PRIORITY)

{¶ 35} Vantage recommends that AEP Ohio finalize the ongoing EPA 316(b) study to include a closed cooling water system and fish entrainment study (Audit Report at 6, 75).

{¶ 36} AEP Ohio responds that OVEC completed these studies and filed with the respective state regulatory agencies in November 2018 for Kyger Creek and January 2019 for Clifty Creek (AEP Ohio Comments at 5).

{¶ 37} The Commission finds that no further action is required at this time, as the studies for the OVEC plants have been completed and submitted.

8. PART VI (POWER PLANT PERFORMANCE), RECOMMENDATION 1 (HIGH PRIORITY)

{¶ 38} Vantage recommends that AEP Ohio continue to closely monitor and operate each facility within the manufacturer's temperature and pressure limitations during cycling conditions (Audit Report at 6, 86).

{¶ 39} AEP Ohio responds that it agrees with this recommendation that OVEC should continue its current process (AEP Ohio Comments at 5).

{¶ 40} The Commission finds that AEP Ohio should continue to comply with Vantage's recommendation.

9. PART VI (POWER PLANT PERFORMANCE), RECOMMENDATION 2 (MEDIUM PRIORITY)

{¶ 41} Vantage recommends that AEP Ohio consider implementing a sliding pressure control strategy, to be utilized during low load periods, in order to reduce unit heat rate and the thermal stress across the turbine (Audit Report at 6, 87).

{¶ 42} AEP Ohio responds that it agrees to address this issue with OVEC and the sponsoring companies to evaluate whether this recommendation would be appropriate (AEP Ohio Comments at 5).

{¶ 43} To the extent that AEP Ohio has not already done so, it should, at the next opportunity, bring this matter to the other OVEC sponsors for evaluation.

10. PART VI (POWER PLANT PERFORMANCE), RECOMMENDATION 3 (HIGH PRIORITY)

{¶ 44} Vantage recommends that AEP Ohio continue the current "Lean Initiative" process and seek to expand the preventive and predictive maintenance programs that are imbedded in the Ventyx Asset and Work Management System to assure dependable availability and reduced forced outages as the units enter a period of low load and cycling operation (Audit Report at 6, 88-89).

{¶ 45} AEP Ohio responds that OVEC has implemented the work management systems. AEP Ohio, therefore, submits that no further action is required. (AEP Ohio Comments at 6.)

{¶ 46} The Commission finds that no further action is required at this time, in light of AEP Ohio's representation that the work management systems have been implemented.

11. <u>Part VI (Power Plant Performance), Recommendation 4 (High Priority)</u>

{¶ 47} Vantage recommends that AEP Ohio utilize the Jet Bubble Reactor (JBR) team to develop a comprehensive predictive maintenance program for all of the JBR scrubbers to reduce the risk that a failure of any given scrubber could impact the operation of multiple units (Audit Report at 7, 92).

{¶ 48} AEP Ohio responds that this process was implemented at the plant during the review period. AEP Ohio, therefore, submits that no additional action is required. (AEP Ohio Comments at 6.)

{¶ 49} The Commission finds that no further action is required at this time, as the recommended process has already been implemented.

12. <u>Part VI (Power Plant Performance), Recommendation 5 (High Priority)</u>

{¶ 50} Vantage recommends that AEP Ohio add a performance engineer position to the Clifty Creek and Kyger Creek organizations (Audit Report at 7, 92).

{¶ 51} AEP Ohio responds that this recommendation is already being implemented through the engineering staff within the technical department at Kyger Creek and the operation department at Clifty Creek. AEP Ohio, therefore, submits that no additional action is required. (AEP Ohio Comments at 6.)

{¶ 52} The Commission finds that no further action is required at this time, in light of AEP Ohio's representation that steps have already been taken to implement Vantage's recommendation.

B. Summary of Additional Comments Regarding the Audit

{¶ 53} In their joint comments, OMAEG and Kroger assert that AEP Ohio failed to satisfy its burden of proving that its OVEC costs were prudent. OMAEG and Kroger note that there were two instances in which Vantage indicated that AEP Ohio had not provided sufficient information on matters such as bidding strategy. OMAEG and Kroger conclude that, if AEP Ohio failed to provide adequate information to Vantage to allow for a complete and thorough prudency review, the Company also failed to satisfy its burden of proof to establish the prudency of its costs under the PPA Rider. Noting that Vantage nonetheless found that AEP Ohio acted prudently, OMAEG and Kroger urge the Commission to reject the prudency conclusions in the audit report. In their joint reply comments, OMAEG and Kroger emphasize that AEP Ohio failed to address this issue in its comments. (OMAEG/Kroger Comments at 2-3; OMAEG/Kroger Reply Comments at 4.)

{¶ 54} Like OMAEG and Kroger, OCC contends that it was illogical for Vantage to conclude that AEP Ohio acted prudently, while also noting that it was not provided detailed information as to how the Company determines what prices or volumes to bid into each PJM Reliability Pricing Model (RPM) auction and was, therefore, unable to conduct a thorough analysis. OCC argues that the Commission should require AEP Ohio to provide evidence to an auditor, the parties, and the Commission sufficient to reach a determination as to whether the Company's bids into the RPM auctions were prudent and in the best interest of consumers, which should be followed by a fair case process for the parties. Alternatively, OCC recommends that the Commission find that AEP Ohio failed to meet its burden of proving that its bidding strategy was prudent, which should result in a full disallowance of charges to customers. OMAEG and Kroger support OCC's recommendations. (OCC Comments at 3-5; OMAEG/Kroger Reply Comments at 4.)

{¶ 55} In response to the arguments of OCC, OMAEG, and Kroger, AEP Ohio states, as an initial matter, that it disagrees with Vantage's finding that the Company did not provide adequate information regarding capacity bidding strategy and process. AEP Ohio explains that it answered every question and data request made by Vantage in relation to the base residual auctions during the audit period and provided information pertaining to the bidding history and clearing results for the Company's share of the OVEC units and a strategy document detailing how the volumes and prices were determined. AEP Ohio further explains that it was not informed by Vantage that the Company's responses were inadequate or incomplete. AEP Ohio also notes that the intervenors were given access to all of the data requests and the responses. (AEP Ohio Reply Comments at 2-3.)

{¶ 56} More importantly, AEP Ohio contends that the sufficiency of the information provided is an academic question, given that the OVEC units cleared the auctions during the audit period. AEP Ohio argues that, because all capacity resources that clear the auction are paid the same clearing price, there can be no doubt that the bidding strategy utilized for the Company's OVEC capacity resources was effective, successful, and prudent, which is consistent with Vantage's conclusion that the Company acted prudently with respect to bidding strategy. AEP Ohio asserts that, because the OVEC units cleared and the revenue is being credited to the benefit of ratepayers, no further issue is ripe for determination. (AEP Ohio Reply Comments at 2-3.)

{¶ 57} The Commission is not persuaded by the arguments of OCC, Kroger, and OMAEG. OCC, Kroger, and OMAEG emphasize that Vantage indicated that, in certain respects, it did not have information sufficient to verify how AEP Ohio determines its bids for its share of the OVEC generating capacity in the annual PJM auctions. In particular, OCC, Kroger, and OMAEG point to Vantage's comment that it "was not provided detailed information" as to how AEP Ohio determines what prices or volumes to bid into PJM's RPM auctions, while Kroger and OMAEG also note that Vantage remarked that the Company's supporting document "was limited in detail" (Audit Report at 21). On an overall basis, Vantage concluded, however, that AEP Ohio did not act imprudently in its oversight responsibilities as it relates to the disposition of capacity (Audit Report at 3). As to the specific audit report excerpts cited by OCC, Kroger, and OMAEG, Vantage reached the conclusion that there is no evidence that the actions taken by AEP Ohio were improper and that the Company is acting prudently in this respect, which was based on the fact that the OVEC units cleared the PJM Capacity Performance auction for 2016-17 and 2017-18, with total revenue of approximately $17 million and $20 million, respectively (Audit Report at 21). While AEP Ohio disputes the claim that it did not provide sufficiently detailed information to Vantage, there is no disagreement among the parties that the OVEC units cleared the capacity auctions for the period under review and that the resulting revenues were credited to ratepayers. Given that all capacity resources that clear the auction are paid the same clearing price, we agree with Vantage's conclusion regarding AEP Ohio's capacity bidding strategy. Accordingly, we find that no further action is required at this time.

{¶ 58} As another recommendation, OCC requests that the Commission require AEP Ohio to provide a credit to customers for carrying charges on over-collections. OCC notes that, during the audit period, AEP Ohio consistently collected from customers more than the actual net OVEC charges, with the over-collections ranging from $354,000 to $1.6 million. According to OCC, Vantage suggested that AEP Ohio be required to assess a carrying charge at a rate of 4.5 percent in favor of customers whenever its over-collection balance is greater than 15 percent of the actual PPA Rider charges. OCC recommends that the Commission reject the 15 percent threshold and order that all over-collections be subject to the carrying charge, which, for the audit period, means that customers would receive a credit in the amount of $342,413. OMAEG and Kroger support OCC's recommendation. (OCC Comments at 5-6; OMAEG/Kroger Reply Comments at 5.)

{¶ 59} AEP Ohio responds that it is unable to replicate OCC's flawed carrying charge calculation, which OCC did not explain through a narrative description or workpapers that show how the amount was calculated by OCC. Noting that a carrying charge component was not included as part of the Commission's approval of the PPA Rider in the *ESP 3 Case* or the *PPA Rider Case*, AEP Ohio argues that the Commission cannot retroactively change the terms of the rider. AEP Ohio also points out that OCC ignores the fact that, under the Commission's direction, the Company deferred nearly $21 million in OVEC costs from June through December 2016, with no carrying costs, while also agreeing to collect that amount over a 12-month period in 2017, in order to spread out the bill impact. AEP Ohio contends that the value associated with its actions far outweighs any over-collection that may have occurred in the quarterly filings. AEP Ohio adds that it would be arbitrary for the Commission to require a carrying charge for regulatory liabilities, while not imposing a carrying charge for regulatory assets. Finally, AEP Ohio notes that, in accordance with R.C. 4928.148, the LGR Rider superseded the PPA Rider as of January 1, 2020. Because there is no carrying charge component to the LGR Rider, AEP Ohio maintains that any ability to change the PPA Rider on a prospective basis has been superseded by the statute. *In re Establishing the Nonbypassable Recovery Mechanism for Net Legacy Generation Resource Costs Pursuant to R.C. 4928.148*, Case No. 19-1808-EL-UNC, Entry (Nov. 21, 2019) at ¶ 31. AEP Ohio concludes that OCC's recommendation should be rejected. (AEP Ohio Reply Comments at 4-5.)

{¶ 60} As part of its fifth recommendation in the audit report, Vantage advised that, for any three-month period reconciled in a quarterly report that results in an over-recovery balance greater than 15 percent of actual PPA Rider charges, the Commission may wish to consider imposing an interest assessment in the amount of 4.5 percent or any other rate used by the Commission to calculate carrying charges with respect to over-recovered balances (Audit Report at 39). Although OCC urges the Commission to adopt a carrying charge requirement, we find that it would be unreasonable, at this late stage, to do so, given that a carrying charge component was not included as part of the Commission's approval of the PPA Rider in the *PPA Rider Case*. Further, as AEP Ohio notes, there is no statutory carrying charge component to the LGR Rider. We, therefore, decline to adopt OCC's recommendation.

{¶ 61} Finally, OCC avers that AEP Ohio has not explained why it did not consider ancillary service revenues until after the audit period ended, when an estimate was made that OVEC could achieve up to $350,000 in annual revenue by participating in PJM's ancillary service market. OCC, therefore, recommends that charges to consumers be reduced by $110,445 to account for the fact that AEP Ohio did not adequately pursue the potential for ancillary service revenues. OMAEG and Kroger support OCC's recommendation. (OCC Comments at 6-7; OMAEG/Kroger Reply Comments at 3.)

{¶ 62} AEP Ohio replies that the OVEC Operating Committee has already taken up this issue. According to AEP Ohio, OVEC has followed a logical sequence of development within PJM and is pursuing a prudent path of timely consideration and careful study of whether to participate in the ancillary service market. AEP Ohio asserts that OCC fails to realize that entering the ancillary service market is not risk free but is rather a complex matter requiring the weighing of risks and rewards in light of the generation resource capabilities. AEP Ohio argues that it would be unlawful for the Commission to impute revenues that do not exist and were not properly calculated. AEP Ohio contends that OCC's calculation is based on a speculative, preliminary number and assumptions that are not justified. As another concern, AEP Ohio notes that it is not known how any penalties associated with OVEC's participation in the ancillary service market would be treated. AEP Ohio concludes that no further action is necessary at this time, as Vantage's recommendation is already being implemented and the issue will be reviewed in the next audit. (AEP Ohio Reply Comments at 6-7.)

{¶ 63} As addressed above, Vantage recommended, and the Commission agrees, that AEP Ohio should prepare a report for the Commission that details the potential ancillary services that the OVEC plants could provide to PJM, including projected annual revenue, and that discusses, if applicable, why the plants are not fit to provide certain ancillary services. Further, as AEP Ohio acknowledges, the OVEC Operating Committee has taken up the issue of whether the OVEC plants should participate in the ancillary service market, with due consideration being given to the potential risks and rewards associated with such participation. We find that it would be unreasonable to impute ancillary service revenues that OVEC did not actually earn, based on speculation, as OCC has done. For these reasons, we find that no further action is necessary at this time, although the issue will be the subject of additional review in subsequent OVEC audits.

IV. ORDER

{¶ 64} It is, therefore,

{¶ 65} ORDERED, That the motions for intervention filed by IEU-Ohio, OMAEG, Kroger, and OCC be granted. It is, further,

{¶ 66} ORDERED, That the recommendations in Vantage's audit report be adopted to the extent set forth in this Finding and Order. It is, further,

{¶ 67} ORDERED, That AEP Ohio take all necessary steps to carry out the terms of this Finding and Order. It is, further,

{¶ 68} ORDERED, That nothing in this Finding and Order shall be binding upon this Commission in any future proceeding or investigation involving the justness or reasonableness of any rate, charge, rule, or regulation. It is, further,

{¶ 69} ORDERED, That a copy of this Finding and Order be served upon all parties and interested persons of record.

COMMISSIONERS:
Approving:
Jenifer French, Chair
M. Beth Trombold
Lawrence K. Friedeman
Daniel R. Conway
Dennis P. Deters

SJP/mef