BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the OVEC Generation Purchase Rider Audits Required by 4928.148 for Duke Energy Ohio, Inc. The Dayton Power and Light Company, and AEP Ohio	)))))	Case No. 21-477-EL-RDR

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

Filed: October 3, 2023

INDEX TO DIRECT TESTIMONY OF
JASON M. STEGALL

I. PERSONAL DATA 1

II. PURPOSE OF TESTIMONY 3

III. OVEC AND ITS GENERATING FACILITIES 3

IV. RIDER MECHANISM 6

V. PARTICIPATION IN THE PJM CAPACITY MARKET 7

VI. COMMITMENT AND DISPATCH IN THE PJM ENERGY MARKET 8

VII. INTERVENORS' RECOMMENDATIONS 17

VIII. CAPITAL INVESTMENT 18

IX. OTHER ISSUES 20

X. CONCLUSION 21

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO
DIRECT TESTIMONY OF
JASON M. STEGALL
ON BEHALF OF
OHIO POWER COMPANY

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 Director of Regulatory Services. 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.

I joined AEPSC in June 1997 as an Accountant in the Regulated Accounting Division of the Accounting Department. From 1997 to 2009, I held various positions in Accounting and Risk Management. In July 2009, I joined the Regulatory Services Department as a Regulatory Consultant in Customer and Distribution Services Support. In

July 2010, I transferred to Regulated Pricing & Analysis where my role focused on developing cost-of-service studies and rate designs as well as other projects related to regulatory issues and proceedings, individual customer requests, and general rate matters. In December 2017, I was promoted to Manager of Regulatory Pricing and Analysis, where I managed the team that supports the fuel-related and purchased-power related filings across AEP's eleven retail jurisdictions. In September 2022, I was promoted to my current position where, in addition to my previous duties, my team also provides analysis and support for Integrated Resource Plan filings across all of AEP's retail jurisdictions.

Q. WHAT ARE YOUR RESPONSIBILITIES AS DIRECTOR OF REGULATORY SERVICES?

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, supporting traditional cost-of-service and rate design projects, and providing support and analysis for Integrated Resource Plan filings across all of AEP's retail jurisdictions.

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

A. Yes. I provided direct testimony and appeared before the Public Utilities Commission of Ohio in Case Nos. 18-1004-EL-RDR and 18-1759-EL-RDR. I have also filed testimony on behalf of other AEP companies in Louisiana, Kentucky, Arkansas, Michigan, Oklahoma, Texas, and West Virginia. I have appeared before the state regulatory commissions in Louisiana, Kentucky, Michigan, Oklahoma, Texas, and West Virginia.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is (1) to address the December 15, 2021 "Audit of the Legacy Generation Resource Rider [LGR] of AEP Ohio" (Audit Report) by London Economics International LLC ("LEI" or "Auditor") for the 2020 audit year and (2) to support the prudence and reasonableness of AEP Ohio's actions with respect to OVEC during the audit period. My testimony will also respond to certain 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), the Citizens Utility Board of Ohio and Union of Concerned Scientists (collectively, CUB), Sierra Club, and the Ohio Environmental Council (OEC).

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 Power Agreement has been submitted to and accepted for filing by 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 DOE Agreement effective April 30, 2003, the Sponsoring Companies became entitled under the terms of the Power Agreement to all of OVEC's net power and energy.

On March 23, 2011, OVEC filed with the FERC an Amended and Restated ICPA, dated September 10, 2010, among OVEC, IKEC and other parties thereto which amended and restated in its entirety the then current Amended and Restated ICPA, dated March 13, 2006. 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 requested as part of the 2011 filings was to extend the term of the ICPA from its then current expiration date of March 13, 2026, to June 30, 2040.

The ICPA is not a simple power purchase agreement as it represents a long-term agreement filed at FERC and approved by FERC and 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 includes members of the sponsoring companies' executives as well as OVEC executives. The Board provides strategic direction to the organization and includes several committees such as the Human Resources Committee of the Board.

The Operating Committee, established under and described in Section 9.05 of the ICPA, includes 10 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 updates, debates and approves the OVEC Operating Procedures, provided as LEI 13.1.1 Confidential Attachment 1, 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, with the most important example being the recommendation to join PJM.

Q. DOES AEP OHIO ALONE HAVE THE ABILITY TO 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 that also reflects the interests of its affiliates. Furthermore, as established in the Operating Procedures, the units will be committed into the PJM market with a commitment status of Must Run at all times and can only be changed per the terms described in the Operating Procedures.

Q. WHO MANAGES OVEC'S 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' role is limited to participation in the Board of Directors and the Operating Committee.

IV. RIDER MECHANISM

Q. DESCRIBE THE HISTORY OF THE LGR.

A. In 2019, the General Assembly decided to replace the previous rate mechanisms that recovered net OVEC costs and enacted R.C. 4928.148 to create the replacement rate mechanism effective January 1, 2020 and through December 31, 2030.

Q. WHAT IS THE LGR?

A. The Legacy Generation Resource Rider or LGR is the mechanism, authorized by the Commission under R.C. 4928.148, to enable the Company to recover on a nonbypassable basis the prudently incurred costs related to OVEC, net of the revenues the Company receives from selling the associated energy, capacity, and ancillary services into the PJM market. During a quarter where the Company's charges exceed the associated revenues received from PJM, the rider results in a charge to the Company's customers. During a quarter where those revenues exceed the Company's charges, the rider results in a credit to customers.

Q. HOW DOES THE LGR FUNCTION?

A. The LGR reflects, 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.

Q. WAS AN AUDIT PERFORMED ON THE LGR?

A. Yes, the Commission contracted LEI to audit the LGR for the period of January 1 through December 31, 2020. LEI's overall findings showed AEP Ohio's actions were consistent with good utility practices.

V. 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[1], AEP Ohio offered its share of OVEC capacity into the Base Residual Auction and subsequent Incremental Auctions covering the 2019/2020 and 2020/2021 PJM Planning Years. PJM Planning Years runs from June 1 through May 30 of the following year. AEP Ohio offered its capacity into the RTO Locational Delivery Area.

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

A. Yes, the Auditor[2] determined that the Company's bidding strategy in the PJM capacity markets was prudent, accommodated the Company's risk exposure and resulted in the

[1] LEI Audit Report at p. 45

[2] *Id.* At p. 45

entirety of the Company's share of OVEC capacity being cleared. Furthermore, the Auditor did not recommend any disallowance based on the Company's sale of capacity.

The Auditor did, however, recommend[3] AEP Ohio consider price and offer volume pairs, which would be based on an analysis of bonus payments and penalties at various levels of capacity. The Auditor's recommendation focuses on the lack of opportunity for the Company to earn bonus payments for over-performance during Performance Assessment Hours because all available capacity is sold into the Base Residual Auction (BRA). While the Company will continue to seek out ways to improve its capacity offer strategy, its approach during the audit period resulted in all of the Company's share of OVEC capacity clearing the BRA. The Company cautions that the Auditor's recommended approach appears to forego BRA capacity revenues for the opportunity to earn revenues if PJM declares a Performance Assessment Interval.

VI. <u>COMMITMENT AND DISPATCH IN THE PJM ENERGY MARKET</u>

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 the following day and uses a security constrained economic dispatch model to satisfy the hourly demand at the lowest possible cost while taking into account 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.

[3] *Id*. at p. 45-46

In order to participate these markets, 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 pjm.com. As an example, energy market cost-based offer curves are determined in accordance with PJM Manual 15.

Q. PLEASE EXPLAIN THE CONCEPT OF UNIT COMMITMENT.

A. As part of the Company's daily submission to the PJM Day Ahead energy market, it must provide a unit commitment designation for each unit. 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. 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 the 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 Operating Committee approved Operating Procedures. Units that are in service and expected to be available in the day-ahead market are offered with a commitment status of Must Run. During Ozone Season, Unit 6 at Clifty Creek is assigned an opportunity cost associated with its NOx emissions profile and is offered as Economic.

Q. DID THE UNIT COMMITMENT STRATEGY CHANGE DURING THE LGR AUDIT PERIOD?

A. Yes. In an Operating Committee meeting held on April 14, 2020, the Operating Committee voted to authorize OVEC the discretion to offer its available units into the PJM market with a commitment status Economic, instead of Must Run, for the period of April 14 through May 31 (This was extended at OVEC's request for 30 days through June 30). This change was developed as a means to respond to falling energy market prices resulting from the economic effects of the COVID-19 pandemic. During this unprecedented period, energy prices dropped to an extremely low level warranting the change in status. In addition to addressing PJM energy market prices and net margins, the proposal approved by the Operating Committee agreed to consider the effects of COVID-19 on staffing and staff safety, operational requirements, fuel inventory and contractual commitments, and any other related financial impacts.

Q. WAS OVEC'S COMMITMENT STATUS IN 2020 REASONABLE?

A. Yes. In general, there are many factors taken into account when determining unit commitment. Since 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 capacity 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, 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 come with risks and significant costs. When evaluating the profitability of OVEC over a longer period, short-term periods may appear out of the money but, in those situations, it may be more economic to keep the unit on than to incur the expense of shutdown and startup. 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 out of the money because the expense to restart units is greater than the loss that would be realized by keeping the units on.

In addition, any cycling of a unit comes with 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. WILL A MUST-RUN COMMITMENT STRATEGY ALWAYS BE REASONABLE FOR THE GENERATING UNITS?

A. Not necessarily. As the incremental cost of a unit's next megawatt-hour generated approaches or exceeds the market price, the advantage of using a Must-Run offer will decline or disappear. The OVEC Sponsoring Companies recognized this during the spring of 2020 when the OVEC Operating Committee provided OVEC the flexibility to offer the units in as Economic instead of Must Run. The market conditions were at a level never seen before due to the pandemic and economics warranted the units to cycle offline during this time. However, 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, its coal supply both on-hand and under contract, and, in the case of OVEC, the needs of its non-PJM sponsoring companies.

Q. IS AN ECONOMIC COMMITMENT STRATEGY ALWAYS REASONABLE FOR THE OVEC GENERATING UNITS?

A. No, not in the current PJM energy market environment. 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 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. This also creates an issue with coal contracts and the ability to accept coal. Prolonged outages due to economics can create issues receiving coal as the storage pile can reach a maximum level of safe operation. Utilities may be forced to pay for coal under fuel supply contracts even though they cannot take delivery, resulting in costs that could outweigh running the unit.

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

A. Yes. Excluding the time period when the Operation Committee allowed for economic commitment as discussed above, 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, ranging from utilities not participating in regional transmission organizations, fully integrated utilities and its Ohio-based members.

Q. DID OVEC OPERATE THE UNITS IN ECONOMIC COMMITMENT STATUS DURING THIS AUDIT?

A. Yes. As further discussed, the Operating Committee allowed OVEC the optionality to run the units in the commitment status of Economic during the period of April 14 to June 30.[4] This change of commitment status was requested and unanimously approved by the Operating Committee. The request to allow this action was mainly due to the global pandemic and the effects from the pandemic to the energy prices. During this period, many industries closed, and people were working from home.

Q. WHY WAS THE CHANGE IN PROCEDURE GOVERNING COMMITMENT STATUS ONLY USED FOR THIS SHORT PERIOD?

A. Continuation of operating in this manner was not feasible for more time due to obligations under OVEC's coal contracts and the potential consequences for violations of those contracts. The existing coal contracts required the facilities to accept a minimum amount of coal which was increasing the amount of coal in storage at the facilities. To keep the coal piles from reaching maximum safe storage levels and to satisfy existing coal contracts by paying for contractually committed coal deliveries, the plants needed to operate. Operating with a Must Run commitment status allowed units to remain online and consume coal to generate electricity, while also being available for further dispatch if their incremental cost of generation was below the PJM market price. Contracted coal deliveries were reasonable when OVEC entered into the contracts to ensure economic, reliable coal supplies, a prudent course of action necessary to support the operation of baseload coal units. The extraordinary economic reactions to the global COVID-19 pandemic which resulted in a drastic drop in energy demand was unforeseeable.

[4] The original proposal only authorized the change from April 14 through May 31 but an extension through June 30 was later approved by the Operating Committee.

Given that the reduction in electricity demand, prices for coal and natural gas also declined. Despite any change in energy market prices, utilities are still obligated to pay for the coal purchased under contracts at the contracted price. In the event that a utility is unable to take delivery, it would still be required to make a payment under its contract, based on the difference between market price and contract price; under this provision that is commercially reasonable in the coal industry and prudent as a utility purchase standard, the net economic effect is simply that the buyer pays for the agreed amount of coal at the agreed price regardless of whether it accepts delivery of all the coal (with an offset for the market value of coal that is not delivered). During 2020, these payments would have been substantial, perhaps the full contract price, because there was such a low demand for coal in the market during the audit year.

Q. SHOULD OVEC COMMIT ITS UNITS WITH AN ECONOMIC STATUS IN EVERY HOUR A UNIT IS AVAILABLE?

A. No. The use of economic commitment status relies on PJM to make the decision to start a generating unit. PJM's unit commitment process considers the next operating day only and excludes any potential positive margins that could be earned in any hours beyond the next operating day. In addition, by not considering any period of time beyond the next operating day, the economic commitment process does not consider any required downtime necessary to maintain a unit prior to its next startup.

There are many factors taken into consideration in the unit commitment decisions made by the operators of power plants in PJM, and short-term economics is not the only factor that enters into the decision to commit a unit with a Must Run status. The factors include, but are not limited to, generating unit economics, startup costs, existing fuel inventories, scheduled deliveries of fuel, operational constraints, scheduled environmental and capability testing, and safe operation of the generating units. For example, if OVEC had scheduled environmental testing at one of its plants and arranged for the necessary OVEC staff and external parties to be on-site, it may opt to commit units as Must Run to ensure they are generating energy on the day of testing.

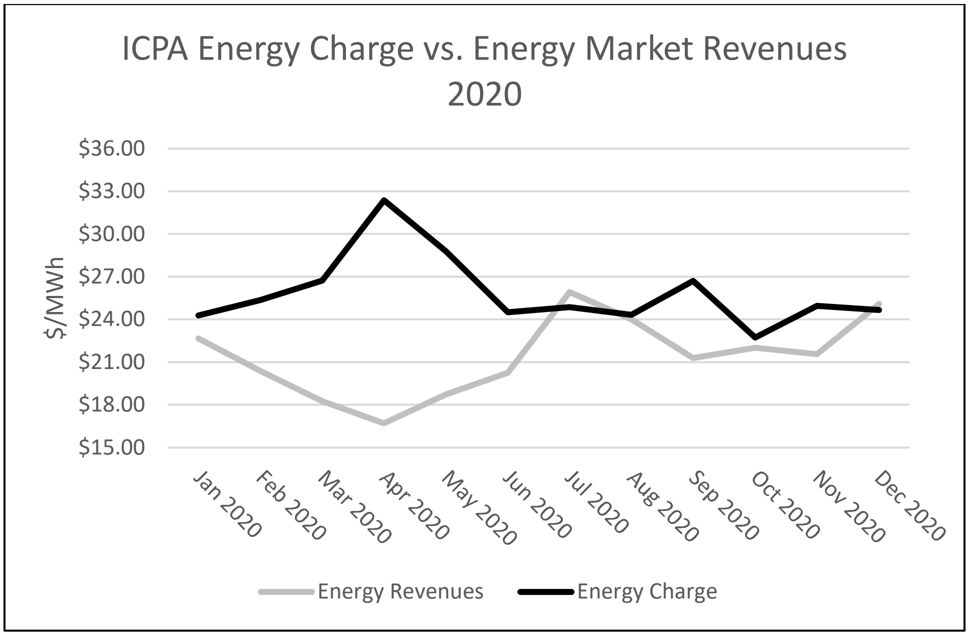
Q. DID OVEC RUN WITH A NEGATIVE NET OPERATING MARGIN IN 2020?

A. As shown below in chart JMS-1, 2020 was an outlier. The global pandemic and the PJM market were at a point never seen in the power industry. The members of the OVEC Operating Committee gave the option for OVEC to utilize the use of economic status for offers to PJM for Kyger and Clifty units. The first quarter of 2020 showed a drastic decline in the average price OVEC was receiving from PJM for the energy it sold. Chart JMS-2 below, shows both the average energy charge from OVEC on a dollar per Megawatt hour basis and the average energy market price received from selling OVEC energy. The difference between the two peaks in April 2020, further demonstrating the reasonableness of the Sponsoring Companies' approval of the proposal to change unit commitment. The use of the economic status helped relieve some of the losses for the year.

Chart JMS-1

	Energy Market Revenue	Sum of Energy Charge	Net Energy Benefit
2018	$83,416,823	$56,879,738	$26,537,085
2019	$63,686,548	$57,568,469	$6,118,079
2020	$40,727,953	$46,937,865	-$6,209,912
2021	$74,846,638	$54,852,582	$19,994,056
2022	$156,381,727	$70,839,174	$85,542,553

Chart JMS-2



VII. <u>INTERVENORS' RECOMMENDATIONS</u>

Q. HOW DOES OVEC PURCHASE COAL FOR ITS FACILITIES?

A. OVEC performs forecasting of weather, seasonal changes, and economical outlooks to determine the need for future coal deliveries. Utilizing the forecast, and known outage schedules for the units, OVEC supplies these requirements to the AEPSC Fuel Procurement Department which submits Requests for Proposal (RFPs) to vendors to secure the best possible price for the coal and the best terms for delivery and quantity. The use of the RFP ensures the customer the lowest cost coal while also addressing transportation, quality and quantity. The responses to RFPs reflect the best available market price available to OVEC at the time the RFP is issued.

Q. OCC STATES THAT OVEC RECEIVED COAL FROM THE SAME MINE AT DIFFERENT PRICES. DO YOU AGREE WITH ITS CONCLUSION?

A. While the OCC[5] is correct about receiving coal from the same mine for two different prices, the process to obtain the coal was performed through two separate RFPs issued in different years and therefore reflect market prices at two different points in time. Each of these coal contracts were competitive and reflect the varying market conditions as of the different dates they were entered into. Finally, these coal contracts were subject to audit for prudency in the year they were entered into based on the facts and circumstances that exited at that time.

VIII CAPITAL INVESTMENT

Q. HOW ARE CAPITAL INVESTMENTS DETERMINED?

A. OVEC's capital investments in excess of $100,000 are subject to a six-step capital budget process. The review is designed to evaluate the project justification, including the business need the project will address, an evaluation of alternatives, and potential benefits such as effects on safety, environmental compliance, and expected return. The final step is the review by the Board of Directors, which takes place during the annual board meeting. LEI's audit review of capital investments concluded OVEC projects were completed within budget and followed a prudent evaluation process.[6]

Q. PLEASE ADDRESS THE RECOMMENDATION FOR CAPPING THE AMOUNT OF CAPITAL ELIGIBLE FOR RATE RECOVERY PURPOSES.

A. First, the recommendation[7] made by LEI to place a cap on the amount of capital costs is unreasonable on its face. OVEC management should be able to make investments

---

[5] OCC Initial Comments at p. 12

[6] Audit Report at p. 86-87

[7] 8.3.3 No ceiling on capital spending
As LEI understands it, the review and approval of the Commission is not needed for OVEC to

necessary to maintain their generating units. Setting a cap on capital expenditures may cause unnecessary delay that could result in unnecessary, preventable equipment failure or unsafe operating conditions.

Second, the proposed cap on capital eligible for cost recovery simply violates the FERC approved OVEC ICPA. Articles 5 and 7 respectively of the ICPA outline what costs will be charged to the Sponsoring Companies and the costs for which the Sponsoring Companies are responsible. This includes capital expenditures made by OVEC to continue operation of the plants until the ICPA terminates in 2040. I have been advised by Counsel that the ICPA is a rate schedule on file at FERC and, because of this, a State Commission may not alter the amount of FERC jurisdictional costs incurred for retail cost recovery purposes. Additionally, there is no incentive for OVEC, or the Sponsoring Companies, for OVEC to invest any amount of capital beyond what is needed to continue operation of the plants as it would just raise the cost of power billed through the ICPA to the Sponsoring Companies.

Q. WHAT ARE THE EFFLUENT LIMITATION GUIDELINES (ELG) AND THE COAL COMBUSTION RESIDUAL RULES (CCR)?

A. In 2020, US EPA (EPA) published the Final CCR Part A rule, which required all unlined CCR surface impoundments to cease receipt of CCR and non-CCR waste streams and initiate closure by April 2021. Through the Part A Rule, EPA offered utilities the opportunity to submit a technical demonstration to propose an extension of the timeline to

engage in capital spending projects. Under such circumstances, a cap or ceiling on annual expenditures would be prudent, to prevent over-investment. LEI recommends that the Commission consider implementing such a cap. However, OVEC is not allowed to earn a return on capital projects as such.

cease receipt of CCR and non-CCR waste streams, requiring that the proposed date be demonstrated to be as soon as technically feasible, and no later than October 15, 2023. It is my understanding that OVEC completed demonstrations for both generating stations ahead of the November 30, 2020, deadline. Although the EPA issued a Proposed Denial in early 2022 of the demonstration submitted for the surface impoundments at the Clifty Creek Station, the EPA did not take any final action on the Clifty Creek Station demonstration, nor has any final action on the Kyger Creek demonstration. It is my understanding that the Construction efforts to meet the requirement to cease receipt of CCR and non-CCR waste streams at all OVEC/IKEC surface impoundments has been completed ahead of the deadline. It is also my understanding that the OVEC plants are also on track for compliance for the ELG Rule.

Q. IS OVEC ALIGNED TO MEET THESE ENVIRONMENTAL STANDARDS?

A. Yes, as stated in section 7.4 of the London Economics International LLC audit, OVEC will meet the federal and state level standards and is positioned and staffed properly to effectively do so and continue running the plants for the duration of the ICPA.

IX <u>OTHER ISSUES</u>

Q. WERE FIXED COST BILLED PROPERLY?

A. Yes, LEI determined[8] AEP Ohio fixed cost components were properly billed, although LEI did question one fixed cost referred to as "Component D." Component D is a monthly charge per common share to pursuant to Section 6.03(d) of the ICPA which was established in 1953. The costs calculated through Component D represent neither a return to AEP

[8] Audit Report at p. 31

Ohio of its investment in common equity nor AEP Ohio's cost of capital. Neither is Component D a return on equity to AEP Ohio or the other Sponsoring Companies as OVEC owners. The amounts that AEP Ohio and other Sponsoring Companies pay to OVEC under Component D are used by OVEC to pay its various costs of operation and are not returned to its shareholders, further evidenced by the fact that OVEC has not issued dividends since 2013. LEI determined that the charge is a small share of the overall OVEC bill and did not deem the charge imprudent.

Q. HAS A DECOMMISSIONING STUDY BEEN PERFORMED?

A. AEP Ohio has not performed a study, nor is one required to determine the Company's obligations under the ICPA. As discussed in article 9.07 of the ICPA, the agreement shall terminate upon the earlier of: (1) June 30, 2040 or (2) the sale or other disposition of all of the facilities of the Project Generating Stations or the permanent cessation of operation of operation of such facilities. The ICPA goes on to state that the relevant articles associated with cost billings and responsibility shall survive termination of the agreement. In other words, even if the Company did perform some sort of decommissioning or retirement analysis that indicated some date sooner than 2040 may be appropriate, the FERC approved ICPA has provisions covering this, and the Company would need to achieve 100% consensus for such a change with all of the other Sponsoring Companies. The Company itself has no unilateral options in this matter under the ICPA.

X <u>CONCLUSION</u>

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

CERTIFICATE OF SERVICE

In accordance with Ohio Administrative Code 4901-1-05, the PUCO's e-filing system will electronically serve notice of the filing of this document upon the following parties. In addition, I hereby certify that a service copy was sent by, or on behalf of, the undersigned counsel to the following parties of record this 3rd day of October 2023, via e-mail.

/s/ Steven T. Nourse

Steven T. Nourse (0046705)

Email Service:

rdove@keglerbrown.com
jeanne.kingery@duke-energy.com
Rocco.dascenzo@duke-energy.com
larisa.vaysman@duke-energy.com
elyse.akhbari@duke-energy.com
John.finnigan@occ.ohio.gov
William.michael@occ.ohio.gov
talexander@beneschlaw.com
trent@hubaydougherty.com
Bojko@carpenterlipps.com
Wygonski@carpenterlipps.com
randall.griffin@aes.com
christopher.hollon@aes.com;
ctavenor@theoec.org
paul@carpenterlipps.com
dproano@bakerlaw.com
ahaque@bakerlaw.com
eprouty@bakerlaw.com
pwillison@bakerlaw.com
jsharkey@ficlaw.com
mwatt@ficlaw.com
knordstrom@theoec.org
Thomas.Lindgren@OhioAGO.gov
Alana.Noward@occ.ohio.gov
ctavenor@theoec.org
easley@carpenterlipps.com