

made public. An annotated copy of the LEI Audit Report that redacts information that AES Ohio continues to believe should be redacted is attached as Exhibit 1 to this motion. Exhibit 1 also identifies previously redacted information that is now publicly available in green. AES Ohio also submits an annotated version of Staff Exhibit 8C similarly marked with redactions and previously redacted information that is now publicly available in green (attached as Exhibit 2).

That exhibit makes public the following information that previously was redacted:

- All Text, p. 9
- All of Figure 8, p. 24
- All of Figure 9, p. 25
- Portions of Figure 10, p. 26
- Portions of Text, p. 26
- All of Figure 11, p. 27
- All Text, p. 27
- All of Figure 12, p. 28
- Portions of Text, p. 28
- Portions of Figure 13, p. 29
- All of Figure 14, p. 30
- All Text, p. 30
- All of Figure 15, p. 31
- All of Figure 17, p. 36
- All Text, p. 37
- Portions of Figure 19, p. 39
- All of Figure 20, p. 40
- All of Figure 23, p. 43
- All of Figure 24, p. 44
- Portions of Text, p. 49
- Portions of Figure 29, p. 52
- Portions of Text, p. 52
- Portions of Figure 30, p. 53
- All of Figure 31, p. 53

- All of Figure 32, p. 54
- Portions of Text, p. 54
- All Text, p. 56
- All Text, p. 58
- Portions of Figure 35, p. 59
- Portions of Figure 36, p. 59
- All Text, p. 61
- Portion of Text, p. 63
- Portion of Text, p. 64
- All Text, p. 88
- All of Figure 54, p. 89
- Portion of Text, p. 96
- Portion of Text, p. 98

The reasons supporting this motion are set forth in the memorandum in support. AES Ohio submits two affidavits in support of this Motion. First, the Affidavit of David J. Crusey in Support of Motion of The Dayton Power and Light Company d/b/a AES Ohio for a Protective Order (attached as Exhibit 3). Second, the Affidavit of Justin J. Cooper in Support of Duke Energy Ohio, Inc., AES Ohio, and AEP Ohio's Motion for Protective Order (attached as Exhibit 4).

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MEMORANDUM IN SUPPORT OF MOTION OF THE DAYTON POWER AND LIGHT COMPANY D/B/A AES OHIO FOR A PROTECTIVE ORDER

Pursuant to Ohio Adm.Code 4901-1-24(D) and the Commission's December 21, 2023 Entry ("Entry") in the above-captioned matter ("LGR Matter"), The Dayton Power and Light Company d/b/a AES Ohio ("AES Ohio") moves for entry of a protective order to maintain the confidentiality of certain redacted information ("Confidential Information") in the Audit of the Legacy Generation Resource Rider of AES Ohio Final Report prepared by London Economics International LLC ("LEI Audit Report"), filed December 17, 2021.

As demonstrated below, the Confidential Information constitutes trade secrets under R.C. 1333.61(D), and should be protected from public disclosure under Ohio Adm.Code 4901-1-24(D). *State ex rel. Plain Dealer v. Ohio Dept. of Ins.*, 80 Ohio St.3d 513, 524-25, 687 N.E.2d 661 (1997); *In the Matter of the Joint Application of The Dayton Power and Light Company for Integration of an Energy Efficiency or Peak-Demand Reduction Program with Honda of Am. Mfg., Inc.*, Pub. Util. Comm. No. 10-2205-EL-EEC, 2011 Ohio PUC LEXIS 1313, at *3 (Dec. 7, 2011) (citing *State ex rel. Besser v. Ohio State Univ.*, 89 Ohio St.3d 396, 399, 732 N.E.2d 373 (2000)); *In the Matter of the Review of the Reconciliation Rider of The Dayton Power and Light Company*, Case No. 20-165-EL-RDR ("RR Matter"), Entry (Nov. 30, 2020).

AES Ohio submits two affidavits in support of this Motion. First, the Affidavit of David J. Crusey in Support of Motion of the Dayton Power and Light Company d/b/a AES Ohio for a Protective Order (attached as Exhibit 2). Second, the Affidavit of Justin J. Cooper in Support of Duke Energy Ohio, Inc., AES Ohio, and AEP Ohio's Motion for Protective Order (attached as Exhibit 3).

I. A FRESH REVIEW OF THE AUDIT REPORT'S REDACTIONS IS WARRANTED

Pursuant to the December 21, 2023 Entry and July 7, 2023 Entry, AES Ohio has reconsidered the information redacted in the LEI Audit Report more than two years ago, and determined that additional information can be made public at this time. AES Ohio approached this task with three principal considerations in mind: (1) AES Ohio's desire to protect customers while encouraging a transparent regulatory process, (2) whether information that was filed under seal is available publicly elsewhere, and (3) whether the redacted information continues to retain independent economic value by being kept confidential.

A. AES Ohio Must Protect Its Customers

Pursuant to R.C. 4928.148, AES Ohio's customers are charged or credited the difference between the amounts that OVEC charges AES Ohio as a sponsoring company and the resulting revenues that AES Ohio receives from PJM energy and capacity markets. AES Ohio's customers would, thus, be harmed if confidential OVEC information is made public, and that information increases OVEC's costs or decreases PJM revenues. AES Ohio's has proposed redactions in this case (both originally and in this motion) with the principal goal of protecting customers.

AES Ohio also recognizes the importance of a transparent regulatory process to its customers, the public, and the Commission. AES Ohio has demonstrated its commitment to that goal recently in both the LGR and RR Matters.

In the LGR Matter, upon request from intervenor the Office of the Ohio Consumers' Counsel ("OCC"), AES Ohio agreed to the disclosure of Figure 9 and 24 in the AES

Ohio Audit Report.¹ Sept. 18, 2023 Letter from J. Finnigan (OCC requests disclosure of Figure 24 in the AES Ohio Audit Report, and AES Ohio agrees via email); Oct. 16, 2023 Letter from J. Finnigan (OCC requests disclosure of Figure 9 in the AES Ohio Audit Report, and AES Ohio agrees and stipulates on the record: "the OCC and AES Ohio have agreed that Figure 9 in the AES Ohio audit can be made public, and AES Ohio will stipulate that the amounts in that figure in the column titled 'Rider Revenues LGR' are the amounts that AES Ohio collected through the LGR during the audit period." LGR Tr. IV 930). Further, at the hearing, AES Ohio worked diligently with the other EDUs to coordinate the release of OVEC information at the request of intervenors and the Attorney Examiners. LGR Tr. III 555 (the EDUs coordinate disclosure of the previously redacted supplier name now that the information is publicly available); Tr. III 796 (the EDUs coordinate disclosure of the OVEC Operating Procedures).

Similarly, in the RR Matter, AES Ohio took a fresh look at redacted information detailing AES Ohio's net OVEC costs at the request of intervenors and the Attorney Examiner. RR Tr. I 17, 75, 86-89 (upon request, AES Ohio agrees to publicly disclose the auditor's corrected chart submitted at the hearing). As a result of AES Ohio's willingness to disclose information about its net OVEC costs, Intervenor Ohio Manufacturing Association Energy Group ("OMAEG") was then permitted to publicly disclose the previously redacted components of OMAEG witness Seryak's direct testimony without objection. RR Tr. II 327 ("EXAMINER SCHABO: And it is unredacted and public because the information that was filed confidentially has now been made public? MS. BOJKO: Yes, that's correct, your Honor. In the case originally

¹ Note: LEI prepared three audit reports for the LGR Matter, one for each EDU-party. The three audit reports contain numerous similarities, but the reports are not identical. While AES Ohio agreed to public disclosure of Figure 9 in the AES Ohio Audit Report, the Figure 9 contained in the AEP Ohio and Duke Energy Ohio are vastly different.

we had filed a public version and a confidential version. Given the release of the table of the auditor that is now released as public information and not -- no longer confidential, Mr. Seryak's entirety of his direct testimony is now public and can be treated as public, so we only intend to mark and enter into the record one document which would be titled 'Direct Testimony of John Seryak Public Version Unredacted.'").

Additionally, AES Ohio consented to OCC's request during the hearing that OCC witness Glick's redacted testimony be made public. RR Tr. II 248-251. "MR. FINNIGAN: That's correct, your Honor. There are two attachments to her testimony that are confidential attachments and those would remain confidential and I would [like] to thank Mr. Sharkey for walking through and, you know, cooperating in terms of the information that could be made public." *Id.* at 251.

B. The LEI Audit Report Contains Confidential Information

AES Ohio is directly responsible for offering its share of OVEC's capacity into PJM's annual Base Residual Auctions. LEI Audit Report, p. 41. As such, AES Ohio has direct knowledge about the sale of capacity into those auctions. The Affidavit of AES Ohio witness Crusey (attached as Exhibit 2) explains that certain information in the LEI Audit Report relating to the capacity auctions should be treated as confidential.

AES Ohio is not involved in the day-to-day operations of OVEC, and OVEC is in the best position to determine whether other OVEC information should be treated as confidential. AES Ohio (and the other utilities in this case) thus worked with OVEC to determine what additional information in the LEI Audit Report should continue to be treated as confidential. The Affidavit of Justin J. Cooper in Support of Duke Energy Ohio, Inc., AES Ohio, and AEP Ohio's

Motion for Protective Order (attached as Exhibit 3). explains that additional information in the LEI Audit Report relating to OVEC's operations should still be treated as confidential.

As discussed above, AES Ohio's desire is to protect its customers from the disclosure of information that could increase OVEC's costs or lower the revenues from PJM. Upon reconsideration of the initial redactions of the LEI Audit Report, AES Ohio has determined that the following information can be released publicly without harming AES Ohio's customers:

- All Text, p. 9
- All of Figure 8, p. 24
- All of Figure 9, p. 25
- Portions of Figure 10, p. 26
- Portions of Text, p. 26
- All of Figure 11, p. 27
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- Portion of Text, p. 64
- All Text, p. 88
- All of Figure 54, p. 89
- Portion of Text, p. 96
- Portion of Text, p. 98

A copy of the LEI Audit Report that discloses that information is attached at Exhibit 1.

II. THE CONFIDENTIAL INFORMATION CONSTITUTES PROTECTED TRADE SECRETS UNDER OHIO LAW

The information that remains Confidential Information and, thus, redacted, is confidential, proprietary, and competitively-sensitive financial and strategic information that, if disclosed, could harm AES Ohio customers by damaging competitive positions in the energy and capacity markets and impairing OVEC's financial position and market participation strategies. AES Ohio and OVEC subject the Confidential Information to reasonable efforts to maintain its secrecy, and the Confidential Information derives independent economic value from not being generally known to other persons who could obtain economic value from its disclosure or use. Accordingly, the Confidential Information constitutes trade secrets under R.C. 1333.61(D) and should be protected from public disclosure under Ohio Adm.Code 4901-1-24(D). RR Matter,

Entry (Nov. 30, 2020); *Plain Dealer*, 80 Ohio St.3d at 524-25; *In the Matter of the Joint Application of The Dayton Power and Light Company for Integration of an Energy Efficiency or Peak-Demand Reduction Program with Honda of Am. Mfg., Inc.*, 2011 Ohio PUC LEXIS 1313 at *3 (citing *Besser*, 89 Ohio St.3d at 399).

Section 4901-1-24(D) of the Ohio Administrative Code provides that the Commission may issue an order which is necessary to protect the confidentiality of information contained in documents filed with the Commission's Docketing Division to the extent that state or federal law prohibits the release of the information, and where non-disclosure of the information is not inconsistent with the purposes of Title 49 of the Revised Code. *Accord*: R.C. 4905.07 (providing that "[e]xcept as provided in section 149.43 of the Revised Code and as consistent with the purposes of Title XLIX [49] of the Revised Code, all facts and information in the possession of the public utilities commission shall be public").

The release of trade secret information by the Commission is prohibited by state law. *In the Matter of the Joint Application of The Dayton Power and Light Company for Integration of an Energy Efficiency or Peak-Demand Reduction Program with Honda of Am. Mfg., Inc.*, 2011 Ohio PUC LEXIS 1313 at *3 ("Section 149.43, Revised Code, specifies that the term 'public records' excludes information which, under state or federal law, may not be released. The Ohio Supreme Court has clarified that the 'state or federal law' exemption is intended to cover trade secrets.") (citing *Besser*, 89 Ohio St.3d at 399. The definition of a "trade secret" includes "any business information or plans [and] financial information" that "derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means" and is the subject of reasonable efforts to maintain its secrecy. R.C. 1333.61(D). *Accord*: *Plain Dealer*, 80 Ohio St.3d at 524-25. This definition

reflects the state policy favoring the protection of trade secrets such as the information that is the subject of this Motion.

Specifically, corporate financial information, business plans, and strategies are trade secrets under Ohio law. *Ohio Consumers' Counsel v. PUC*, 121 Ohio St.3d 362, 2009-Ohio-604, 904 N.E.2d 853, ¶ 31 ("Exposing a competitor's business strategies and pricing points would likely have a negative impact on that provider's viability."); *Millennium Health, LLC v. Roberts*, N.D. Ohio No. 1:19CV2381, 2020 U.S. Dist. LEXIS 93942, at *50 (Mar. 4, 2020) ("Roberts had knowledge of Millennium's confidential and trade secret information, such as, Millennium's customer lists, locations, preferences and practices, profitability, order history, and strategies for serving and marketing to certain existing and potential customers; Millennium's business plans and strategies; Millennium's sales and marketing techniques, and strategies; and Millennium's strategic goals and forecasts."); *Kenker Box Co. v. Riemeier Lumber Co.*, 1st Dist. Hamilton Nos. C-990803 and C-990824, 2000 Ohio App. LEXIS 6198, at *10 (Dec. 29, 2000) ("A company's determination of its costs, overhead, and volume of sales, and particularly its calculation of profit margins on customers' purchases may be the kind of information that the trade-secret statute seeks to protect."); *Alpha Benefits Agency, Inc. v. King Ins. Agency, Inc.*, 134 Ohio App.3d 673, 683, 731 N.E.2d 1209 (8th Dist.1999) (holding that trial court should have ordered plaintiff to produce its "profitability information" to defendant subject to a protective order); *Vanguard Transp. Sys. v. Edwards Transfer & Storage Co. Gen. Commodities Div.*, 109 Ohio App.3d 786, 789-90, 673 N.E.2d 182 (10th Dist.1996) (affirming trial court order that held that various information including "corporate financial information" constituted a trade secret).

Here, the Confidential Information constitutes "business information or plans, [and] financial information" that is confidential, proprietary and competitively sensitive trade secret information under R.C. 1333.61(D). If disclosed, the Confidential Information could harm AES Ohio customers by damaging competitive position in the energy and capacity markets and impairing OVEC's financial position and market participation strategies. AES Ohio and OVEC maintain the Confidential Information subject to reasonable efforts to keep its secrecy, and the Confidential Information derives independent economic value from not being generally known to other persons who could obtain economic value from its disclosure or use. Affidavit of David J. Crusey in Support of Motion of the Dayton Power and Light Company d/b/a AES Ohio for a Protective Order (attached as Exhibit 3); Affidavit of Justin J. Cooper in Support of Duke Energy Ohio, Inc., AES Ohio, and AEP Ohio's Motion for Protective Order (attached as Exhibit 4).

II. CONCLUSION

For the foregoing reasons, AES Ohio's Motion should be granted and the information marked as redacted in the revised Audit Report should remain confidential and not be publicly accessible.

Respectfully submitted,

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EXHIBIT 1

[REDACTED]

**AUDIT OF THE LEGACY GENERATION RESOURCE
RIDER OF AES OHIO
FINAL REPORT**

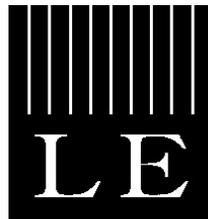
Public Version Reflecting AES Ohio's January 4, 2024 Redactions

[REDACTED]

Prepared for

Public Utilities Commission of Ohio

By



**LONDON
ECONOMICS**

London Economics International LLC

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December 15, 2021

Audit of the Legacy Generation Resource Rider of AES Ohio: Final report



Prepared for the Public Utilities Commission of Ohio by London Economics International LLC

December 15, 2021

London Economics International LLC (“LEI”) was selected by the Public Utilities Commission of Ohio to conduct an independent audit of the Legacy Generation Resource Rider (“LGR”) Rider of AES Ohio (“AES”). The audit period covers January 1, 2020 through December 31, 2020. The Commission engaged LEI through RFP No. RA21-PPA-1.

LEI’s scope of work encompassed the following tasks:

- *providing industry context;*
- *reconciling OVEC bills and AES Ohio riders;*
- *examining the prudence of OVEC’s disposition of energy and capacity;*
- *assessing prudence of fuel and variable costs incurred;*
- *examining prudence of capital expenses;*
- *reviewing environmental compliance activities; and*
- *reviewing power plant performance.*

LEI’s approach to the audit was to rely on information LEI requested from AES, primarily through formal data requests. The financial information used in the audit is therefore from a reliable source. LEI also relied on publicly available data, which is used throughout this report to provide context, comparison, and benchmarks.

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Important Disclaimer Notice

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1 Executive summary and recommendations

1.1 Objective and purpose

AES Ohio is an investor-owned electric utility regulated by the Public Utilities Commission of Ohio (“PUCO” or “the Commission”). AES Ohio is a Sponsoring Company of the Ohio Valley Electric Corporation (“OVEC”), meaning that AES Ohio, under a contract known as the *Amended and Restated Inter-Company Power Agreement* (“ICPA”), is entitled to a share of OVEC’s electricity generation, and must also pay that same share of OVEC’s costs.¹ OVEC’s generation is provided by two 60-plus year-old coal plants.

In 2019, House Bill 6 (“HB 6”) defined a legacy generation resource (“LGR”) in a way which encompassed the OVEC plants (RC 4928.01(A)(41)). New riders were needed to replace existing OVEC riders starting on January 1, 2020.² AES’s Legacy Generation Resource Rider (“LGR”) became effective January 1, 2020.

The Commission engaged LEI to audit the LGR Rider for the period January 1 through December 31, 2020. The purpose of the audit is to establish the prudence of all the costs and sales flowing through the LGR Rider, and to investigate whether AES Ohio’s actions were in the best interest of its retail ratepayers.³

1.1.1 LEI general scope of work

LEI’s scope of work covers the following items:

1. **Industry context:** A review of the current dynamics of the PJM wholesale markets in which OVEC operates, and the impact that changing market dynamics have on OVEC’s operations and practices;
2. **OVEC bill and AES Ohio LGR Rider reconciliation:** Examination of whether charges on the OVEC bill are accurately reflected in AES Ohio’s accounts, and also in the LGR Rider;
3. **Disposition of energy and capacity:** A review of the unit scheduling and offering of energy into PJM administered wholesale markets, offering behavior in PJM administered capacity markets, and offering behavior and/or participation in any other market that may provide revenue above and beyond that which is received in energy and capacity markets;

¹ LEI-DR-06-001 Attachment. *Amended and Re-Styled Inter-Company Power Agreement*.

² Dickinson Wright PLLC. *Ohio Enacts Sweeping Energy Legislation: HB 6 Bails Out Nuclear, Coal; Rolls Back Renewables and Energy Efficiency*. September 2019. <<https://www.dickinson-wright.com/news-alerts/ohio-enacts-sweeping-energy-legislation>>

³ Public Utilities Commission of Ohio. Request for Proposal No. RA21-PPA-1. Issues January 29, 2020. P.2.

4. **Fuel and variable costs:** An assessment of OVEC’s fuel operations and maintenance-related expenses, including comparison between incurred fuel costs and market prices to evaluate the reasonableness of fuel expenses during the audit period;
5. **Capital expense:** Examination of the prudence of OVEC’s process for allocating capital and conducting capital projects, and an assessment of whether the fixed costs incurred by OVEC are properly allocated to AES Ohio, including depreciation, debt service, and plant maintenance expenses;
6. **Environmental compliance:** A review of OVEC’s environmental compliance activities. This includes, but is not limited to, the impact that compliance activities had on OVEC’s fuel procurement strategy, overall emission allowance management strategy, and methods used to analyze compliance options and develop overall mitigation strategies; and
7. **Power plant performance:** A review of significant plant outages or other degradations observed in the operating availability, equivalent availability, or capacity factors of OVEC’s generating plants, and an assessment of at least one of OVEC’s generating stations based on a virtual site visit.

1.2 LEI’s audit approach

LEI’s approach to the audit was to rely on information LEI requested from AES Ohio staff, primarily through formal data requests. LEI also used publicly available data from OVEC annual reports, and other sources of public data. The audit approach included the following steps:

- LEI issued formal data requests over the time period August 2021 through November 2021, and kept a database and numbering system which logged requests issued and responses received;
- LEI held conference calls and numerous email exchanges; and
- Owing to COVID-19 protocols in place at the OVEC plants, which prohibit non-essential personnel from visiting the plants, LEI did not conduct in-person interviews, site visits, or in-camera contract reviews. LEI conducted a single “virtual site visit” to audit the presence and use of environmental control equipment in the plants, and coal handling operations.

Another key component of LEI’s audit was to compare and benchmark cost and operational results against industry data from publicly available data sources, such as the Energy Information Administration (“EIA”). This public data provided the important context for evaluating OVEC’s fuel and power procurement results, as well as results of operations.

This audit report is presented in ten chapters:

- Chapter 1: Executive summary and recommendations
- Chapter 2: Introduction
- Chapter 3: Utility industry context
- Chapter 4: OVEC bill and LGR rider reconciliation
- Chapter 5: Disposition of energy and capacity
- Chapter 6: Fuel and variable cost expenses

- Chapter 7: Capital expenses
- Chapter 8: Environmental compliance
- Chapter 9: Power plant operations
- Chapter 10: Appendix of Acronyms

Chapters 4-9 are organized in the same way, beginning with a statement of the scope of the audit which applies to AES Ohio's activities, and background information to provide context for these activities; followed by the evaluative criteria used in the audit, LEI's findings, and finally LEI's recommendations.

1.3 LEI's findings and recommendations

Overall, LEI found that the processes, procedures, and oversight were mostly adequate and consistent with good utility practice, given that the ICPA is in place and customers will be charged for the cost of the plants until at least May 2024.

LEI's analysis shows that at this time the OVEC plants cost customers more than the cost of energy and capacity that could be bought on the PJM wholesale markets. However, there may be other considerations, such as providing employment at the plants, or the plants' contributions to fuel diversity in the State, that outweigh the impact on ratepayers, which the Ohio legislature takes into consideration.

As detailed in this report, LEI has the following recommendations:

Components of fixed cost: The components of fixed costs were billed properly. However, one component of fixed costs, referred to as "Component (D)" in the OVEC bill, is identified by the ICPA as a payment per common share (similar to a dividend). OVEC's capital expenditures are not part of a rate base for which they are allowed a regulated rate of return, but Component D is itself a return to the owners of OVEC. ORC 4928.01(A)(42) requires that "*Prudently incurred costs ...must exclude any return on investment in common equity...*"⁴ Component D seems to be a such a return. Though it is not a large share of the overall OVEC bill to ratepayers, the annual \$2.51 million per year for Component D amounted to nearly all OVEC's \$2.81 million of net income in 2020.⁵

Disposition of energy and capacity: OVEC energy and capacity are sold into the PJM markets. OVEC typically self-schedules its units in the PJM day-ahead market (in other words, OVEC informs PJM that a unit's availability status is "must-run"). The alternative to must-run availability status for a unit which is not on outage is to offer the unit so that it may be committed by PJM (in other words, OVEC would inform PJM that a unit's availability status is "economic").⁶ Must-run units are committed by the market participant and then dispatched by PJM without

⁴ PUCO. RFP No. RA21-PPA-1. Issued January 29, 2020. P.3.

⁵ OVEC. *Annual Report 2020*. <<https://www.ovec.com/FinancialStatements/AnnualReport-2020-Signed.pdf>>

⁶ PJM Manual 11. P. 30. <<https://www.pjm.com/-/media/documents/manuals/m11.ashx>>.

regard to whether the hourly energy price is high enough to cover the unit's fuel and variable costs. LEI's analysis (based on monthly average PJM prices) shows that some of the time during the audit period, the PJM energy price did not cover fuel and variable costs. LEI believes the temporary permission given by the OVEC Operating Committee (of which AES Ohio is a member) to allow the OVEC plants to be committed either as must-run or based on economic commitment (discussed in Section 5) was prudent. That option was in place temporarily in 2020; LEI recommends that AES Ohio and the other members of the Operating Committee allow this flexibility on an ongoing basis. Ideally, the units would be committed based on economics all or most of the time, but in the case of coal plants this can cause difficulties in managing staffing and fuel deliveries, and repeated start-up of coal plants can damage equipment. In terms of disposition of capacity, LEI recommends that AES Ohio consider developing price and volume offer pairs based on analysis of bonus payments and penalties at various MW offer levels.

Fuel and variable cost expenses: Coal inventories were much higher than target levels in 2020. LEI recommends that AES Ohio, through its role on the Operating Committee, encourage ongoing review and improvement to OVEC's coal burn forecasting methods, and coal procurement practices.

Capital expenses: The process of planning and executing individual capital projects appears to be well-managed. However, it appears there is no cap on annual capital expenses. This could lead to over-investment in the plants, as the Commission does not review and/or approve the OVEC capital expenditures.

Environmental compliance activities: Based on LEI's virtual site visit, LEI found that OVEC complied with environmental requirements during the audit period. Management of emissions allowance inventories was reasonable and prudent.

Power plant performance: The plants performed reliably in 2020, with forced outage rates generally better than PJM averages; and availability factors slightly higher than PJM averages for some units, and slightly lower for other units. However, heat rates were higher (i.e., efficiency was lower) than in 2019 owing to weaker demand and low energy prices in 2020, which resulted in plant dispatch at levels below optimal operating levels.

In the previous audit of AES Ohio's DPL Reconciliation Rider ("RR") in Docket No. 18-1379-EL-RDR,⁷ the auditor made several recommendations. Figure 1 shows the current status of the recommendations.

⁷ Vantage Consulting. *Independent Audit of the Reconciliation Rider of Dayton Power and Light, Final Report*. Response to RFP No. RA20-PPA-2. October 1, 2020.

Figure 1. Auditor recommendations from AES Ohio RR audit for 2019

| Topic | Auditor recommendation | Status or outcome |
|------------------------------------|---|-------------------|
| Disposition of energy and capacity | Prepare report for PUCO covering potential ancillary services OVEC plants could provide | under way |
| Capital expenditures | Examine small projects to determine if they are capital in nature | unknown |
| OVEC bill and rider reconciliation | Formally document the procedures for cost recovery for OVEC capital costs and expenses | unknown |
| Environmental compliance | OVEC operating Committee should continue to monitor projected implementation of regulations, and the impact on operations | under way |

2 Introduction

2.1 Introduction to Ohio Valley Electric Corporation

Ohio Valley Electric Corporation (“OVEC”) and its wholly owned subsidiary, Indiana-Kentucky Electric Corporation (“IKEC”), were established on October 1, 1952. OVEC and IKEC were established by investor-owned utilities (“IOUs”) and their parent companies to serve the large electric power requirements projected for the uranium enrichment facilities under construction by the Atomic Energy Commission (“AEC”) near Portsmouth, Ohio.”⁸ As of 2020, OVEC is owned by various IOUs or utility holding companies and two affiliates of generation and transmission rural electric cooperatives. These entities or their affiliates comprise the Sponsoring Companies. The Sponsoring Companies purchase power from OVEC according to the terms of the Inter-Company Power Agreement (“ICPA”), which is in place until June 30, 2040.⁹

OVEC owns two coal-fired power plants. OVEC’s Kyger Creek Power Plant at Cheshire, Ohio, and IKEC’s Clifty Creek Power Plant at Madison, Indiana, have nameplate generating capacity of 1,086.3 MW and 1,303.56 MW respectively.¹⁰ The two generating stations began operating in 1955 and are connected by a network of 705 circuit miles of 345 kV transmission lines that also interconnect with the major power transmission network of several of the utilities in the area (see Figure 2).¹¹

Figure 2. OVEC generating stations, 2021



Source: S&P Global Market Intelligence.

⁸ “Ohio Valley Electric Corporation.” OVEC. Web. October 29, 2021. <<https://www.ovec.com/OVECHistory.pdf>>

⁹ OVEC. *Annual Report 2020*. p. 8. <<https://www.ovec.com/FinancialStatements/2020-ConsolidatingFinancials.pdf>>

¹⁰ “OVEC-IKEC.” OVEC. Web. October 29, 2021. <<http://www.ovec.com/ContinueReading.php>>

¹¹ Ibid.

Between 2019 and 2020, OVEC's net generation declined by 19.69% from 11,238,298 MWh to 9,025,018 MWh.¹² During the same period, the total power cost to Sponsors declined at 5.54% from 640.80 million to \$605.27 million.¹³¹⁴ As a result, the average power cost (total power cost divided by net generation) increased by 17.54% from \$57.04/MWh to \$67.00/MWh. According to OVEC's 2021 annual report, "increased average power costs were directly related to reduced generation by the impact of COVID-19 on the energy demand."¹⁵

2.2 Introduction to AES Ohio

Applied Energy Services ("AES") operates in Ohio as AES Ohio. AES Ohio serves over 527,000 customer accounts, serving 1.25 million people in West Central Ohio through a network of over 1,682 miles of overhead and 8 miles of underground transmission lines.¹⁶

AES Ohio does business in Ohio as the Dayton Power and Light Company ("DP&L"), which is a subsidiary of DPL (DPL Inc.), which in turn is a wholly owned subsidiary of AES. DP&L is a public utility which sells, transmits, and distributes electricity to residential, commercial, industrial, and governmental customers in a 6,000 square mile area of West Central Ohio.¹⁷

Based on the ICPA, as a Sponsoring Company, AES Ohio (through DP&L) is entitled to a 4.9% contractual share of the costs and revenues of the two OVEC plants.¹⁸ This Power Participation Ratio ("PPR") share is billed to AES Ohio customers in the LGR Rider.

2.3 The Inter-Company Power Agreement ("ICPA")

In the 1950s, OVEC, the US AEC, and OVEC's owners or their utility company affiliates (the Sponsoring Companies) entered into power agreements to build the two coal plants to serve AEC's substantial power requirements. On October 15, 1952, a 25-year agreement was executed by OVEC and AEC. As part of this agreement, OVEC and the Sponsoring Companies later (in 1953) signed the ICPA which specified the allocation to each company of power not utilized by the Department of Energy ("DOE") or its predecessors. On September 29, 2000, the DOE informed OVEC of its cancellation of the DOE Power Agreement. On April 30, 2003, the DOE Power

¹² OVEC. *Annual Report 2020*. p. 45. <<https://www.ovec.com/FinancialStatements/2020-ConsolidatingFinancials.pdf>>

¹³ Ibid.

¹⁴ Unless otherwise stated, all prices are in nominal US dollars.

¹⁵ Ibid. p. 4.

¹⁶ AES Ohio. "Fast Facts". Web. Accessed on November 18, 2021. <<https://www.aes-ohio.com/fast-facts>>

¹⁷ Securities and Exchange Commission. *Dayton Power & Light Co.; DPL Inc.* Form 10-Q. September 2020. p. 14.

¹⁸ Securities and Exchange Commission. *Dayton Power & Light Co.; DPL Inc.* Form 10-Q. September 2020. p. 5; OVEC. *Annual Report 2020*. p. 2. <<https://www.ovec.com/FinancialStatements/AnnualReport-2020-Signed.pdf>>

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Agreement was terminated.¹⁹ Since the DOE Power Agreement termination, OVEC’s entire generating capacity has been available to the Sponsoring Companies under the terms of the ICPA. The Sponsoring Companies and OVEC entered into an amended contract, the *Amended and Restated Inter-Company Power Agreement*, effective as of August 11, 2011, which extends to June 30, 2040.²⁰ Shares of the sponsoring companies in OVEC’s power participation benefits and requirements are shown in Figure 3.

Figure 3. OVEC Sponsoring Company Power Participation Ratios

| | |
|--|--------|
| Allegheny Energy Supply Company LLC ¹ | 3.01 |
| Appalachian Power Company ⁶ | 15.69 |
| Buckeye Power Generating, LLC ² | 18.00 |
| The Dayton Power and Light Company ³ | 4.90 |
| Duke Energy Ohio, Inc. ⁴ | 9.00 |
| Energy Harbor Corp..... | 4.85 |
| Indiana Michigan Power Company ⁶ | 7.85 |
| Kentucky Utilities Company ⁵ | 2.50 |
| Louisville Gas and Electric Company ⁵ | 5.63 |
| Monongahela Power Company ¹ | 0.49 |
| Ohio Power Company ⁶ | 19.93 |
| Peninsula Generation Cooperative ⁷ | 6.65 |
| Southern Indiana Gas and Electric Company ⁸ | 1.50 |
| | 100.00 |

Some of the Common Stock issued in the name of:

- *American Gas & Electric Company
- **Columbus and Southern Ohio Electric Company

Subsidiary or affiliate of:

- ¹FirstEnergy Corp.
- ²Buckeye Power, Inc.
- ³The AES Corporation
- ⁴Duke Energy Corporation
- ⁵PPL Corporation
- ⁶American Electric Power Company, Inc.
- ⁷Wolverine Power Supply Cooperative, Inc.
- ⁸CenterPoint Energy, Inc.

Source: OVEC. *Annual Report 2020*. p. 2. <<https://www.ovec.com/FinancialStatements/AnnualReport-2020-Signed.pdf>>

The most recent legislation authorizing cost recovery with respect to changes under the ICPA arrangement (HB 6) requires that the cost to residential customers cannot exceed \$1.50/month.²¹ HB 6 goes on to require that, with respect to OVEC (referred to as “legacy generation resource” in the following quote): “for all other customer classes, the commission shall establish comparable monthly caps for each class at or below one thousand five hundred dollars per customer. Insofar as the prudently incurred costs related to a legacy generation resource exceed these monthly limits, the electric distribution utility shall defer the remaining prudently incurred costs as a regulatory asset or liability that

¹⁹ OVEC. *Annual Report 2020*. p. 2. <<https://www.ovec.com/FinancialStatements/AnnualReport-2020-Signed.pdf>>

²⁰ Ibid.

²¹ The Ohio Legislature. House Bill 6. October 2019. p. 15. <<https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA133-HB-6>>

shall be recovered as determined by the commission subject to the monthly caps set forth in this division."²² This means that, although there is a monthly cap on customer charges, there is no cap over time, and any prudently incurred costs greater than the caps can be recovered from customers in the future.

2.4 FirstEnergy Solutions bankruptcy impacted OVEC

A dispute starting in August 2018 which impacted the cost of the ICPA to AES customers came to a conclusion in 2020. The bankrupt FirstEnergy Solutions ("FES"), now Energy Harbor Corp., initially refused to pay its 4.85% (power participation ratio) PPR under the ICPA.

A settlement of the case became effective on June 15, 2020. Per the settlement, Energy Harbor:²³

- assumed the ICPA;
- became a Sponsoring Company of OVEC, taking over FES's 4.85% PPR;
- continued to perform its obligations under the ICPA arising on or after June 1, 2020, pursuant to the terms of the ICPA; and
- paid OVEC \$32.5 million in cash as full and final settlement of any cure amounts required to be paid in connection with the assumption of the ICPA.

In the meantime, however, as noted by OVEC "*Per the ICPA... OVEC made available to all other Sponsoring Companies FES's entitlement to available energy under the ICPA.*"²⁴ AES Ohio was allocated a portion of FES's energy output and paid the associated variable costs, and received without additional cost a portion of FES's capacity revenues.

2.5 AES and OVEC

In addition to AES Ohio's contract for OVEC generation through the ICPA, DP&L has other points of integration with OVEC. DP&L and OVEC have overlapping executive management. For example, the Vice-President and Chief Financial Officer of DP&L sits on the Executive Committees of both AES and OVEC.²⁵

²² Ibid.

²³ OVEC. *Annual Report 2020*. p. 43. < <https://www.ovec.com/FinancialStatements/AnnualReport-2020-Signed.pdf>>

²⁴ Ibid. p. 42.

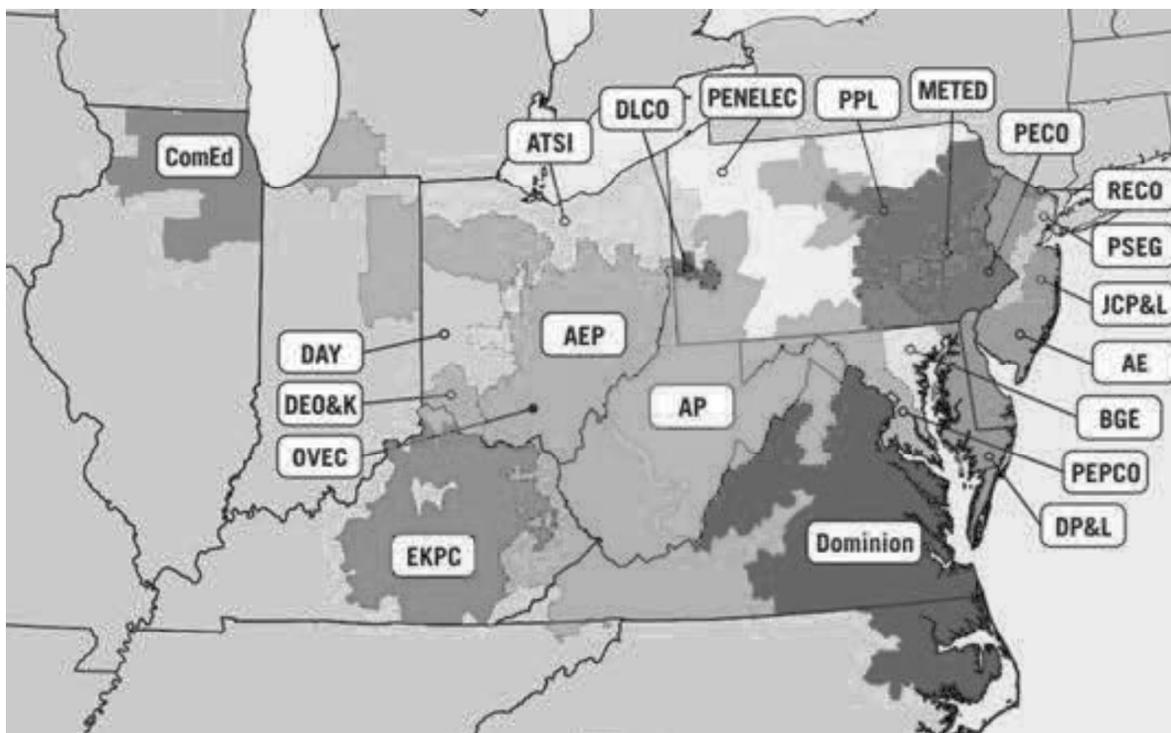
²⁵ OVEC. "Gustavo Garavaglia". *Annual Report 2020*. p. 46. < <https://www.ovec.com/FinancialStatements/AnnualReport-2020-Signed.pdf>>

3 Industry context

To understand LEI's assessment of the prudence of the costs incurred related to AES's LGR Rider, it is important to begin with the context of the electricity industry in PJM.

AES Ohio and the OVEC plants are located in the PJM Interconnection. PJM is a regional transmission organization ("RTO") that manages grid reliability and wholesale electricity markets for 13 states and the District of Columbia (see Figure 4).²⁶

Figure 4. PJM footprint



Source: Map of PJM territory served. <<https://www.pjm.com/-/media/about-pjm/pjm-zones.ashx>>

This chapter discusses the following:

- PJM energy and capacity markets;
- PJM ancillary services;
- PJM Minimum Offer Price Rule ("MOPR");
- LEI's estimated levelized cost of a new combined-cycle gas turbine ("CCGT") plant in PJM; and

²⁶ PJM coordinates the movement of electricity through all or parts Delaware, Illinois, Indiana, Kentucky, Maryland, Michigan, New Jersey, North Carolina, Ohio, Pennsylvania, Tennessee, Virginia, West Virginia, and the District of Columbia.

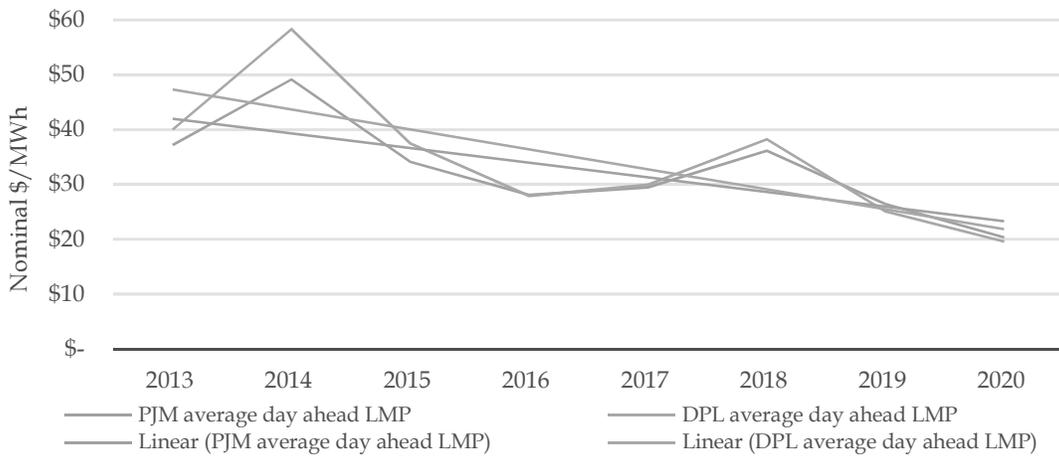
- Repeal of nuclear subsidy and introduction of solar subsidy in Ohio.

3.1 PJM energy and capacity prices

3.1.1 PJM energy prices

Wholesale electric energy prices have generally declined since 2013 in the PJM market, except for a spike in 2014 caused by extremely cold weather during the Polar Vortex and a small rise in 2018 as a result of higher natural gas and coal prices, and other drivers. Between 2013 and 2020, day-ahead energy prices decreased on average 8.3% per year across the PJM footprint and fell on average 9.7% per year in AES (Dayton Power and Light “DPL” Company) zone (see Figure 5). The day-ahead energy prices in the AES zone averaged \$25.06/MWh in 2019 and \$19.55/MWh in 2020.

Figure 5. Annual average day-ahead energy prices (2013-2020)



Source: Day-ahead prices from PJM aggregated by S&P Global Market Intelligence.

3.1.2 PJM uplift payments

PJM provides payments for operating a unit under specific conditions as directed by PJM.²⁷ These uplift payments to units are intended to “ensure that they recover their total offered costs when market revenues are insufficient or when their dispatch instructions diverge from their dispatch schedule.”²⁸ For example, if PJM wants to schedule a unit to operate for two hours at a given output (say, operate from 3pm – 5pm at 150 MW) the next day, but the unit requires four hours to start up, has a minimum run time of four hours, and a minimum generation level of 50 MW, then PJM would ensure that the costs of start-up and operations are reimbursed. i.e., that the unit’s costs are made whole. This applies to units which are available based on economics, but

²⁷ PJM. “Drivers of uplift”. <https://www.pjm.com/markets-and-operations/energy/drivers-of-uplift>

²⁸ Ibid.

not to units which are self-scheduled, because uplift payments are “intended to be one of the incentives to generation owners to offer their energy to the PJM energy market for dispatch based on incremental offer curves and to operate their units at the direction of PJM dispatchers.”²⁹

3.1.3 PJM capacity prices

PJM has a capacity mechanism to support long-term reliability, conducting an annual three-year forward auction to procure the supply needed to meet predicted demand. The capacity mechanism is referred to as the Reliability Pricing Model (“RPM”). The RPM is a series of annual auctions for delivery in the future. The majority of capacity is procured in the first auction for a particular delivery year, which is known as the Base Residual Auction (“BRA”), conducted three years in advance of a given delivery year.³⁰ Capacity clearing prices in the BRA have fluctuated in recent years (see Figure 6). The 2022/2023 BRA is the third BRA for which PJM has procured only Capacity Performance (“CP”) Resources, which means that the resources are required to generate if called upon, and if they do not, they must pay substantial penalties to PJM.³¹ New entry, retirements, and changes in parameters affecting the demand curve impact capacity prices. The OVEC plants are located in the RTO capacity zone.

Figure 6. RPM base residual auction (“BRA”) resource clearing price in PJM (\$/MW-day)

| | 2012/2013 | 2013/2014 | 2014/2015 | 2015/2016 | 2016/2017 | 2017/2018 | 2018/2019 | 2019/2020 | 2020/2021 | 2021/2022 | 2022/2023 |
|-----|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| PJM | \$ 16.46 | \$ 27.73 | \$ 125.99 | \$ 136.00 | \$ 59.37 | \$ 120.00 | \$ 164.77 | \$ 100.00 | \$ 76.53 | \$ 140.00 | \$ 50.00 |

Source: PJM. *2022/2023 RPM Base Residual Auction Results*. P. 1, 6. <<https://www.pjm.com/-/media/markets-ops/rpm/rpm-auction-info/2022-2023/2022-2023-base-residual-auction-report.ashx>>; PJM. *2021/2022 RPM Base Residual Auction Results*. p. 4; PJM. *2020/2021 RPM Base Residual Auction Results*. P. 1.

In the PJM auction held in May 2021 for the 2022/23 delivery year cleared at \$50.00/MW-day.

3.2 PJM ancillary services

Ancillary services help to balance the transmission system as it moves electricity from generating sources to ultimate consumers. A co-optimized solution is performed by PJM to optimize between energy and/or ancillary services supplied from a unit by using market offers for energy and operating reserves as well as physical constraints.

Regulation and reserves are two categories of ancillary services for which PJM operates a market:

²⁹ Monitoring Analytics. *PJM State of the Market Report 2020*. Section 4 : Energy Uplift. <https://www.monitoringanalytics.com/reports/PJM_State_of_the_Market/2020/2020-som-pjm-sec4.pdf>.

³⁰ Capacity Market/RPM FAQs. <<https://learn.pjm.com/three-priorities/buying-and-selling-energy/capacity-markets/capacity-markets-faqs.aspx>>.

³¹ PJM. *2022/2023 RPM Base Residual Auction Results*. P. 26. <<https://www.pjm.com/-/media/markets-ops/rpm/rpm-auction-info/2022-2023/2022-2023-base-residual-auction-report.ashx>>.

- **Regulation** helps to control small mismatches between load and generation. Currently, steam (coal and natural gas), combustion turbines (natural gas, oil, methane, and biomass), hydro, storage (batteries, flywheels, and hot water heaters), and demand response participate in the PJM Regulation Market, which provides market-based compensation to those resources that can adjust output or consumption in response to an automated signal.
- **Reserves** are used to recover system balance by making up for generation deficiencies if there is loss of a large generator. There are three major categories of reserves: operating reserves, which must be available within 30 minutes; primary reserves, which must be available within 10 minutes; and synchronized reserves, which is grid-connected power that must be available within 10 minutes. All three reserves can be supplied by generators that are connected to the electric grid, and/or by demand side response. Operating reserves and primary reserves can also be supplied by offline generators.

PJM operates a market for regulation services (the Regulation Market), and for reserves (the Synchronized Reserve Market, the Non-Synchronized Reserve Market, and the Day-Ahead Scheduling Reserve Market).³²

There are ancillary services, which are not purchased or sold through a market-based system. For example, reactive power (which helps maintain the correct voltage on the transmission system and is essential to the flow of power) provided by generators is paid for by PJM based on a tariff, rather than procured through markets.³³

In its Quarterly State of the Market Report posted on August 12, 2021, PJM's independent market monitor evaluated the synchronized reserve market for the first six months of 2021 and reported that it was not competitive due to high levels of supplier concentration.³⁴ During the same period, the Day-Ahead Scheduling Reserve Market and the Non-Synchronized Reserve Market were also reported by the PJM's independent market monitor as not competitive as the markets would have failed a three pivotal supplier test in 45.8% and 87.1% of the hours respectively.³⁵ PJM's independent market monitor recommended that PJM review the design of these markets to improve competitiveness.

3.3 PJM's minimum offer price rule ("MOPR")

The MOPR specifies a minimum dollar amount that a resource can offer into the capacity market. The MOPR is intended to prevent resources from offering into the market at artificially low prices, thereby limiting market power and ensuring that new resources are offered competitively into

³² PJM. *Learning Center - Regulation Market*. < <https://learn.pjm.com/three-priorities/buying-and-selling-energy/ancillary-services-market/regulation-market.aspx>>.

³³ PJM. *Reactive Supply Compensation Overview*. February 10, 2021. <<https://www.pjm.com/-/media/committees-groups/committees/mic/2021/20210210/20210210-item-14-reactive-power-in-pjm.ashx>>.

³⁴ Monitoring Analytics. *Quarterly State of the Market Report for PJM*. August 2021. p. 20.

³⁵ Ibid.

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PJM's capacity markets. Historically, MOPR only applied to a limited number of new resources, such as natural gas-fired combustion turbine and combined cycle plants.

On December 19, 2019, FERC issued an Order expanding PJM's MOPR to include renewable energy resources, among other resources, benefitting from state subsidies (see text box below). The intent of expanding the MOPR was to mitigate the potential price-distorting impacts of state-subsidized resources participating in PJM's multibillion-dollar capacity market. Under the Order, all new and existing state-subsidized capacity resources would be subject to an administratively determined price floor. This ruling came as a response to a complaint filed against PJM in 2016 from a group of competitive power suppliers.³⁶

The FERC Order was met with opposition from clean energy advocates, who argued that states with large renewable portfolios would have to pay twice for renewable capacity that does not clear PJM's market. Rehearing requests sought clarification of the definition of state subsidy, the scope of exemptions for existing renewables, and how the MOPR will be applied.

On March 18, 2020, PJM submitted its compliance filing to FERC. In this filing, PJM confirmed the price floors for various resources, and clarified exceptions to the MOPR. Notable exceptions to the MOPR included renewables in state Renewable Portfolio Standard ("RPS") programs, demand response and energy efficiency, storage, self-supply, federal subsidies such as the Regional Greenhouse Gas Initiative ("RGGI") as well as any resource that can demonstrate actual costs are less than the MOPR floor price.³⁷

"State Subsidy shall include "direct or indirect payment, concession, rebate, subsidy, non-bypassable consumer charge, or other financial benefit that is a result of any action, mandated process or sponsored process of a state government, a political subdivision or agency of a state, or an electric cooperative formed pursuant to state law" and

- 1) "is derived from or connected to the procurement of (a) electricity or electric generation capacity sold at wholesale in interstate commerce, or (b) an attribute of the generation process for electricity or electric generation capacity sold at wholesale in interstate commerce; or
- 2) will support the construction, development, or operation of a new or existing capacity resource; or
- 3) could have the effect of allowing the unit to clear in any PJM capacity auction."

- PJM. "Compliance Filing Concerning the Minimum Offer Price Rule." March 18, 2020. p. 12.

On July 30, 2021, PJM filed an updated MOPR with FERC, intended to protect the market from buyer-side market power and from state actions that directly interfere with the auction clearing

³⁶ FERC Docket No. EL16-49-000.

³⁷ Hale, Z. PJM responds to FERC-ordered capacity market overhaul with tight timelines. S&P Global. March 18, 2020.

outcomes, while accommodating state public policies and self-supply models.³⁸ On September 29, 2021, FERC ordered that PJM’s proposed amendments to its capacity market rules would take effect immediately and therefore, MOPR would come to effect for the upcoming 2023/2024 delivery year capacity auction.³⁹

3.4 LEI’s estimated levelized cost of new entry in PJM is lower than full cost of OVEC plants

LEI’s analysis indicates that a new combined cycle gas turbine (“CCGT”) has a levelized cost of energy (“LCOE”) of \$35.9/MWh for PJM West and \$42.2/MWh for PJM East in 2021(see Figure 7). LCOE is an analytical tool that measures lifetime costs of a power plant divided by its lifetime energy production. It calculates the present value of the total cost of building and operating a new plant—including the fixed cost—and spreads this cost over all the MWhs the plant is assumed to produce in its lifetime. Thus, LCOE is a \$/MWh measure that can be compared to market prices. If expected market prices are higher than the LCOE of a plant, it is a signal that an investor could earn an attractive return—it is, therefore, a signal to build a plant. If expected market prices are lower than the LCOE, it is a signal not to build a plant (unless there is an additional source of revenue, such as a capacity market). The LCOE of \$35.9/MWh for PJM West and \$42.2/MWh for PJM East include recovery of fixed costs of \$120.4/kW/year and \$128.2/kW/year.

The reported cost of the OVEC plants, at \$67.00/MWh,⁴⁰ is higher than the levelized cost of building a new CCGT. The LCOE analysis implies that the OVEC plants are not competitive with a new CCGT based on full-cycle costs.

³⁸ FERC Docket No. ER21-2582-000.

³⁹ PJM. *PJM MOPR Proposal Takes Effect by Notice of FERC*. September 2021. < <https://insidelines.pjm.com/pjm-mopr-proposal-takes-effect-by-notice-of-ferc/>>.

⁴⁰ OVEC. “OVEC’s average power cost to the Sponsoring Companies”. Annual Report 2020. P. 4. < <https://www.ovec.com/FinancialStatements/AnnualReport-2020-Signed.pdf> >.

Figure 7. LEI's estimated cost of generic new entry of a CCGT in PJM

| 2021 | CCGT (PJM West) | CCGT (PJM East) |
|---|--------------------|--------------------|
| Capital cost (\$/kW) | \$ 859 | \$ 922 |
| Leverage (%) | 60.0% | 60.0% |
| Tax rate (%) | 26.0% | 26.0% |
| Debt interest rate (%) | 6.0% | 6.0% |
| Post-tax required equity return (%) | 8.7% | 9.0% |
| Equity contribution capital recovery term | 20 | 20 |
| Lead time | 20 | 20 |
| Heat rate (Btu/KWh) | 6,339 | 6,339 |
| Variable O&M (\$/MWh) | \$ 2.7 | \$ 2.1 |
| Fixed O&M (\$/MWh) | \$ 24.0 | \$ 20.0 |
| Fuel price (\$/MMBtu) | \$ 2.5 | \$ 3.3 |
| Capacity factor (%) | 80% | 80% |
| All-in fixed cost (\$/kW/year) | \$ 120.4 | \$ 128.2 |
| Levelized cost of new entry (\$/MWh) | \$ 35.9 | \$ 42.2 |

Notes:

1. Capital cost of CCGT includes carrying charges over the construction period.
2. All-in fixed cost includes interest and principal debt payments and fixed O&M.
3. Forecasted gas price for PJM West is based on Dominion South while the gas price for PJM East is based on Transco-Z5. For the purpose of modelling, LEI has used average gas prices for 2020.

Sources: PJM MOPR Price Calculations, PJM BRA Parameters, LEI.

3.5 Repeal of nuclear subsidy in Ohio

The General Assembly of the State of Ohio amended substitute House Bill Number 128 (“HB 128”), which ended the \$9/MWh subsidy paid to the state's nuclear plants.⁴¹ HB 128 was passed on March 25, 2021, and effective June 30, 2021.⁴² HB 128 also included a solar energy credit paid under section 3706.55 of the Revised Code, at \$9/MWh. The total disbursements required under section 3706.55 of the Revised Code from the solar generation fund were set at \$20 million. The bill reduced the monthly charge for residential customers to \$0.10 per customer from \$0.85 and the per-customer monthly charge for industrial customers was now capped at \$242 per month, a significant decline from the previous \$2,400 per month.⁴³

⁴¹ Sweeny, Darren. “Ohio House passes legislation to repeal nuclear subsidies.” S&P Global. March 11, 2021.

⁴² Ohio State Legislature. *Revise electric utility service law; repeal portions of HB 6*. House Bill 128. March 2021. <<https://www.legislature.ohio.gov/legislation/legislation-summary?id=GA134-HB-128>>

⁴³ Ibid.

4 OVEC bill and LGR Rider reconciliation

4.1.1 Scope

As noted previously, as a Sponsoring Company, AES Ohio is responsible for a 4.9% contractual share (that of Dayton Power and Light) of the costs and revenues of the two OVEC plants, based on the ICPA.⁴⁴ The total 4.9% share is billed to AES Ohio customers in the LGR and is therefore within the scope of this audit.

This chapter addresses the following topics:

- details of the monthly OVEC bills from January 2020 to December 2020⁴⁵ in which all the charges and credits to AES Ohio and the other members of the ICPA are detailed; and
- the LGR Rider, which details the forecasted monthly charges to AES Ohio's customers, the actual monthly LGR charges, and the cumulative unrecovered balance in the LGR Rider.

In coming to LEI's conclusions, LEI issued formal data requests and held conference calls and phone calls with AES Ohio personnel.

4.1.2 Background of LGR

AES Ohio's LGR became effective January 1, 2020.⁴⁶ It replaced AES Ohio's Reconciliation Rider, which was in effect from November 1, 2018, to December 31, 2019. As noted previously, in 2019 HB 6 defined a legacy generation resource in a way which encompassed the OVEC plants (RC 4928.01(A)(41)). The LGR Rider was implemented on January 1, 2020, and became effective on that date. LGR Rider rates are updated every six months and are effective for a six-month period (January 1 through June 30; and July 1 through December 31, in a given year). When the rates are set for the coming half-year, the rates are also trued-up for the previous half-year. This process applies to all the EDUs which buy energy and capacity from OVEC and are allowed to recover the cost on the LGR Rider

4.2 Evaluative criteria

LEI focused its audit of the OVEC bill and LGR on answering the following questions:

- Are AES Ohio's journal entries consistent with OVEC monthly bills?

⁴⁴LEI DR 06-001 - Attachment 1.pdf (*Amended and Re-Styled Inter-Company Power Agreement*)

⁴⁵ LEI DR 02-009 - Attachment 1 - CONFIDENTIAL ("OVEC bill").

⁴⁶ AES Ohio Tariff, issued December 27, 2019, pursuant to Finding and Order in case No. 19-2133-EL-ATA

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- Are the actual monthly LGR charges, which appear in the Rider statements, consistent with the monthly bills provided by OVEC, which AES Ohio pays?
- On a net basis, does the ICPA cost customers more than the plants earn in the PJM markets?
- Are the under/(over) recovery balances consistent with monthly OVEC costs and revenues?

4.3 Findings and conclusions

4.3.1 OVEC bill, journal entries, and rider charges are consistent

AES Ohio provided its monthly OVEC bills and accounting entries, and LEI examined each month in 2020.

4.3.1.1 Analysis of OVEC actual charges

LEI examined AES Ohio’s journal entries for actual OVEC charges, provided in LEI DR 06-005 Attachment 1 CONFIDENTIAL and LEI DR 06-003 Attachment1_Part2.pdf (confidential) and compared them to the OVEC monthly bills provided LEI DR 02-009 Attachment 1 CONFIDENTIAL ("OVEC bill").

The total of payments from the journal (Pmt 1 + Pmt 2 + Pmt 3 in Figure 8) sum to the total actual cost on the OVEC bill. This means the OVEC bills and AES Ohio’s journal entries are consistent, as they should be.

Figure 8. Reconciliation of OVEC bill and detailed monthly journal entries

| Month | OVEC bill | Journal | | | |
|----------------|----------------------------------|--------------------------------|---|--|------------------------------|
| | Total actual OVEC monthly charge | Total of payments from journal | Pmt 1: Provisional previous month payments for days 16-31 | Pmt 2: Provisional current month payment for days 1-15 | Pmt 3: Prior months' True-up |
| January 2020 | \$ 2,441,783.17 | \$ (2,441,783.17) | \$ (1,537,530.00) | \$ (1,157,872.00) | \$ - |
| February 2020 | \$ 2,319,610.24 | \$ (2,319,610.24) | \$ (1,561,318.00) | \$ (1,246,078.00) | \$ 277,406.83 |
| March 2020 | \$ 2,505,114.29 | \$ (2,505,114.29) | \$ (1,116,688.00) | \$ (1,141,574.00) | \$ 43,155.76 |
| April 2020 | \$ 2,325,662.56 | \$ (2,325,662.56) | \$ (1,350,652.00) | \$ (1,360,329.00) | \$ (12,888.29) |
| May 2020 | \$ 2,156,559.15 | \$ (2,156,559.15) | \$ (975,798.00) | \$ (1,026,296.00) | \$ 10,464.44 |
| June 2020 | \$ 2,294,749.23 | \$ (2,294,749.23) | \$ (1,114,077.00) | \$ (1,239,696.00) | \$ (16,186.15) |
| July 2020 | \$ 2,573,568.84 | \$ (2,573,568.84) | \$ (1,082,902.00) | \$ (1,323,006.00) | \$ 27,848.77 |
| August 2020 | \$ 2,517,914.35 | \$ (2,517,914.35) | \$ (1,298,487.00) | \$ (1,298,500.00) | \$ 47,924.16 |
| September 2020 | \$ 2,391,031.30 | \$ (2,391,031.30) | \$ (1,421,004.00) | \$ (1,371,995.00) | \$ 201,589.65 |
| October 2020 | \$ 2,433,393.09 | \$ (2,433,393.09) | \$ (1,043,700.00) | \$ (940,803.00) | \$ 24,663.70 |
| November 2020 | \$ 2,560,938.99 | \$ (2,560,938.99) | \$ (1,519,002.00) | \$ (1,396,502.00) | \$ 26,411.91 |
| December 2020 | \$ 3,470,839.72 | \$ (3,470,839.72) | \$ (1,205,406.00) | \$ (1,587,592.00) | \$ 40,969.01 |
| January 2021 | | | \$ (1,621,902.00) | \$ (1,474,905.00) | \$ (261,345.72) |

Source: LEI DR 02-009 - Attachment 1 - CONFIDENTIAL ("OVEC bill"), LEI DR 06-005 Attachment 1 CONFIDENTIAL ("journal entries"), and LEI DR 06-003 Attachment1_Part2.pdf (confidential).

LEI next reconciled journal entries with the actual LGR charges. LEI examined LEI DR 06-005 Attachment 1 CONFIDENTIAL (“journal entries”) generated by AES Ohio’s customers billing system and compared them to the LGR Rider charges shown in LEI-DR-06-002 Attachment 1. Net of the CAT tax, the entries reconciled to within a few dollars (see Figure 9).

Figure 9. Reconciliation of journal entries and rider charge

| Month | Rider revenues from journal entries, including CAT tax | Rider revenues net of CAT | Rider revenues, LGR | Difference |
|----------------|--|---------------------------|---------------------|------------|
| January 2020 | \$474,558.48 | \$473,324.63 | \$473,331.13 | (\$6.50) |
| February 2020 | \$583,525.78 | \$582,008.61 | \$582,016.61 | (\$8.00) |
| March 2020 | \$581,637.13 | \$580,124.87 | \$580,128.94 | (\$4.07) |
| April 2020 | \$542,783.54 | \$541,372.30 | \$541,372.30 | \$0.00 |
| May 2020 | \$517,352.91 | \$516,007.79 | \$516,007.79 | \$0.00 |
| June 2020 | \$571,760.73 | \$570,274.15 | \$570,274.15 | \$0.00 |
| July 2020 | \$774,923.83 | \$772,909.03 | \$772,909.03 | (\$0.00) |
| August 2020 | \$779,476.54 | \$777,449.90 | \$777,449.90 | \$0.00 |
| September 2020 | \$763,181.46 | \$761,197.19 | \$761,197.19 | (\$0.00) |
| October 2020 | \$711,821.97 | \$709,971.23 | \$709,971.24 | (\$0.01) |
| November 2020 | \$652,388.67 | \$650,692.46 | \$650,692.46 | (\$0.00) |
| December 2020 | \$719,172.15 | \$717,302.30 | \$717,302.30 | \$0.00 |
| Total | \$7,672,583.19 | \$7,652,634.47 | \$7,652,653.04 | |

Source: LEI DR 06-005 Attachment 1 CONFIDENTIAL (“journal entries”), and LEI-DR-06-002 Attachment 1

4.3.1.2 Recommendations

LEI concludes that the OVEC bills, journal entries, and the actual charges on the LGR bills are consistent with one another. LEI has no recommendations on this topic.

4.3.2 Were components of fixed costs (capital costs) billed properly?

The RFP requires the auditor to ensure that any fixed costs incurred by OVEC are properly allocated to AES Ohio, including depreciation, debt service, and plant maintenance expense. These fixed costs comprise the demand charges in the OVEC bill.

4.3.2.1 Analysis of billing of fixed cost

First, LEI examined OVEC bills to determine the overall components of fixed costs. These components included Components A-F as found in the OVEC bill (see Figure 10). The OVEC bill includes PJM fees and PJM charges or credits in the demand portion of the bill. These are shown in Column H of Figure 10.

Figure 10. Total demand charges payable to OVEC from all participants

| Risk Month | A Debt amortization, interest, depreciation for additional facilities | B O&M expense | C Taxes not included in A, B, or D | D \$2.089 * 100,000 shares at \$100/share | E Post retirement benefit obligations | F Decommission ing and demolition | G Total demand charge (A+B+C+D+E+F) | H PJM expenses, fees, charges/(credits) |
|----------------|---|------------------|---|--|---|--|--|--|
| January 2020 | | | | \$ 208,900.00 | | | \$ 25,507,676.94 | \$81,124.97 |
| February 2020 | | | | \$ 208,900.00 | | | \$ 24,703,310.67 | \$121,706.69 |
| March 2020 | | | | \$ 208,900.00 | | | \$ 31,420,041.40 | \$22,641.59 |
| April 2020 | | | | \$ 208,900.00 | | | \$ 33,568,064.31 | \$57,622.97 |
| May 2020 | | | | \$ 208,900.00 | | | \$ 30,405,843.40 | \$102,368.13 |
| June 2020 | | | | \$ 208,900.00 | | | \$ 24,689,959.16 | \$87,319.58 |
| July 2020 | | | | \$ 208,900.00 | | | \$ 27,389,450.79 | \$121,035.33 |
| August 2020 | | | | \$ 208,900.00 | | | \$ 27,991,561.17 | (\$21,317.48) |
| September 2020 | | | | \$ 208,900.00 | | | \$ 29,412,612.16 | \$119,985.69 |
| October 2020 | | | | \$ 208,900.00 | | | \$ 32,453,399.87 | \$33,846.62 |
| November 2020 | | | | \$ 208,900.00 | | | \$ 28,880,375.73 | \$15,775.22 |
| December 2020 | | | | \$ 208,900.00 | | | \$ 41,161,778.49 | \$25,896.26 |
| Total | \$180,418,824.04 | \$143,308,951.70 | | \$2,506,800.00 | | | \$ 357,584,074.09 | \$ 768,005.57 |

Source: LEI DR 02-009 - Attachment 1 - CONFIDENTIAL ("OVEC bill")

Next, LEI calculated AES Ohio’s share of the total OVEC demand charges in the following manner: AES Ohio’s share of OVEC demand charges is equal to its PPR of 4.9%. Its share of the PJM charges is 5.42% (the share of PJM charges is higher than the share of demand charges because some of the Sponsoring Companies are not in PJM). Multiplying the PPR share by the total demand charges in Figure 10 gives the demand charges that should be billed to AES Ohio; for example, for January 2020, the total demand charge to AES Ohio was [REDACTED] (Column A in Figure 11). Multiplying AES Ohio’s PJM percentage share by total OVEC PJM charges (or credits) results in a PJM charge of \$ [REDACTED] for January 2020 (Column B in Figure 11). To reconcile the total OVEC charges with AES Ohio’s journal, AES Ohio’s share of OVEC transmission charges [REDACTED] must also be added (Column C of Figure 11). The total of these components is shown in Column D of Figure 11. The entries in Column H show reconciliation to within several cents per month of demand charges paid based on AES Ohio’s journal. This is a tiny difference and is not an issue. The only exception is for the month of October 2020, when the amount of \$6,501.72 appears in the reconciliation column. This is because the OVEC bill included \$6,501.72 to correct a PJM billing error in August 2021, and is not an error on the part of AES Ohio.

Figure 11. Total demand charges payable to OVEC from AES Ohio, reconciled with journal

| Month | A AES's share of total demand charge, OVEC bill | B AES's share of PJM expenses and fees, OVEC bill | C AES's share of transmission charges, OVEC bill | D Total (A+B+C) | E Actual demand charge (demand + PJM capacity charge + transmission charge + PJM fees) | F Capacity charge (PJM)* | H Reconciliation (D - E + F)** |
|----------------|--|--|---|-------------------------|---|-----------------------------|-----------------------------------|
| January 2020 | \$ 1,249,876.17 | \$ 4,396.97 | \$ 64,829.33 | \$ 1,319,102.48 | \$1,334,272.94 | \$15,170.47 | \$ 0.01 |
| February 2020 | \$ 1,210,462.22 | \$ 6,596.50 | \$ 62,932.03 | \$ 1,279,990.76 | \$1,294,181.58 | \$14,191.73 | \$ 0.91 |
| March 2020 | \$ 1,539,582.03 | \$ 1,227.17 | \$ 60,318.41 | \$ 1,601,127.61 | \$1,616,298.09 | \$15,170.47 | \$ (0.01) |
| April 2020 | \$ 1,644,835.15 | \$ 3,123.16 | \$ 54,660.48 | \$ 1,702,618.80 | \$1,717,299.88 | \$14,681.10 | \$ 0.02 |
| May 2020 | \$ 1,489,886.33 | \$ 5,548.35 | \$ 55,501.05 | \$ 1,550,935.72 | \$1,545,635.82 | (\$5,299.91) | \$ (0.01) |
| June 2020 | \$ 1,209,808.00 | \$ 4,732.72 | \$ 63,944.27 | \$ 1,278,484.99 | \$1,289,800.69 | \$11,315.70 | \$ 0.00 |
| July 2020 | \$ 1,342,083.09 | \$ 6,560.11 | \$ 65,990.40 | \$ 1,414,633.60 | \$1,426,326.49 | \$11,692.89 | \$ 0.00 |
| August 2020 | \$ 1,371,586.50 | \$ (1,155.41) | \$ 64,962.75 | \$ 1,435,393.84 | \$1,447,086.55 | \$11,692.89 | \$ 0.18 |
| September 2020 | \$ 1,441,218.00 | \$ 6,503.22 | \$ 60,473.49 | \$ 1,508,194.71 | \$1,519,510.41 | \$11,315.70 | \$ (0.00) |
| October 2020 | \$ 1,590,216.59 | \$ 1,834.49 | \$ 58,908.33 | \$ 1,650,959.41 | \$1,669,154.02 | \$11,692.89 | \$ (6,501.72) |
| November 2020 | \$ 1,415,138.41 | \$ 855.02 | \$ 64,747.19 | \$ 1,480,740.62 | \$1,492,056.32 | \$11,315.70 | \$ (0.00) |
| December 2020 | \$ 2,016,927.15 | \$ 1,403.58 | \$ 69,316.99 | \$ 2,087,647.71 | \$2,099,340.61 | \$11,692.89 | \$ (0.01) |
| Total | \$ 17,521,619.63 | \$ 41,625.90 | \$ 746,584.72 | \$ 18,309,830.25 | \$ 18,450,963.40 | \$ 134,632.52 | |

Source: Columns A - D, LEI DR 02-009 - Attachment 1 - CONFIDENTIAL ("OVEC bill"); Columns E and F, LEI DR 06-005 - Attachment 1 - CONFIDENTIAL ("journal entries")

*The OVEC bill separates the PJM capacity charge from the demand charges, but AES includes it, so LEI adjusted for that here, to ensure OVEC and AES journal would reconcile accurately.

**The amount of \$6,501.72 appears in the reconciliation column for October 2020, because the OVEC bill included \$6,501.72 to correct a PJM billing error in August 2021.

4.3.2 Recommendations

The components of fixed costs were billed properly, and LEI has no recommendations.

LEI notes that Component (D) of the demand charge, defined as "is an amount equal to the product of \$2.089 multiplied by the total number of shares of capital stock of the par value of \$100 per share,"⁴⁷ amounts to \$2.51 million per year which is ultimately paid by ratepayers including AES Ohio's customers. Though it is not a large share of the overall OVEC bill to ratepayers, the \$2.51 million per year amounted to nearly all OVEC's \$2.81 million of net income in 2020.⁴⁸

4.3.3 The OVEC plants cost more than they earn

Although it is obvious from the fact that the LGR is usually a charge to AES Ohio's customers and not a credit, it is helpful to set the costs of the OVEC plants in the context of the PJM energy and capacity markets.

4.3.3.1 Analysis

During the audit period, LEI calculated that the monthly average cost of OVEC demand charges as \$39.59/MWh; and energy charges as \$25.61/MWh, for a total cost for the year of \$65.19/MWh (see Figure 12). LEI calculated these numbers by summing together the total OVEC demand and

⁴⁷ LEI DR 02-009 - Attachment 1 - CONFIDENTIAL ("OVEC bill")

⁴⁸ OVEC. *Annual Report 2020*. <https://www.ovec.com/FinancialStatements/AnnualReport-2020-Signed.pdf>

energy costs (in dollars), and then dividing by the total available energy used to bill the Sponsoring Companies (in MWh).

LEI's results are consistent with reporting by OVEC, which noted: "In 2020, OVEC's average power cost to the Sponsoring Companies was \$67.00 per MWh compared with \$57.04 per MWh in 2019... Increased average power costs were directly related to reduced generation by the impact of COVID-19 on the energy demand."⁴⁹

Figure 12. OVEC cost of power (demand and energy charges)

| Month | OVEC demand charge (\$) | OVEC energy charge (\$) | Available energy (billing kWh) | Demand and energy cost per MWh |
|-------------------------|-------------------------|-------------------------|--------------------------------|--------------------------------|
| January 2020 | \$ 25,507,676.94 | \$ 21,506,055.28 | 886,178,000 | \$ 53.05 |
| February 2020 | \$ 24,703,310.67 | \$ 19,911,875.84 | 785,618,000 | \$ 56.79 |
| March 2020 | \$ 31,420,041.40 | \$ 17,259,069.63 | 645,727,000 | \$ 75.39 |
| April 2020 | \$ 33,568,064.31 | \$ 11,813,372.14 | 364,909,000 | \$ 124.36 |
| May 2020 | \$ 30,405,843.40 | \$ 11,863,118.66 | 411,844,000 | \$ 102.63 |
| June 2020 | \$ 24,689,959.16 | \$ 20,509,195.71 | 837,329,000 | \$ 53.98 |
| July 2020 | \$ 27,389,450.79 | \$ 23,413,252.61 | 942,026,000 | \$ 53.93 |
| August 2020 | \$ 27,991,561.17 | \$ 21,853,535.78 | 898,813,000 | \$ 55.46 |
| September 2020 | \$ 29,412,612.16 | \$ 17,786,249.55 | 666,126,000 | \$ 70.86 |
| October 2020 | \$ 32,453,399.87 | \$ 15,596,620.32 | 585,854,000 | \$ 82.02 |
| November 2020 | \$ 28,880,375.73 | \$ 21,813,798.58 | 873,994,000 | \$ 58.00 |
| December 2020 | \$ 41,161,778.49 | \$ 27,989,892.04 | 1,134,638,000 | \$ 60.95 |
| Weighted average | | | | \$ 65.19 |

Source: LEI DR 02-009 - Attachment 1 - CONFIDENTIAL ("OVEC bill")

The net impact on AES Ohio and its customers depends on the OVEC plants energy market earnings and on AES Ohio's capacity market revenues (AES Ohio's capacity market bidding is discussed in detail in Section 5). Capacity market earnings help offset AES's total OVEC bill (energy plus demand) in 2020 of \$29,991,165; it leaves an estimated \$ [REDACTED] to be recovered for the year (see column C in Figure 13). AES Ohio recovered a portion of this, \$12,983,772, through its share of OVEC's energy sales in the PJM market (column D in Figure 13). The remaining [REDACTED] is a loss to AES Ohio, that is reflected in the LGR Rider. The weighted average cost per MWh of this loss was [REDACTED] MWh in 2020.

⁴⁹ OVEC. *Annual Report 2020*. P. 3. <https://www.ovec.com/FinancialStatements/AnnualReport-2020-Signed.pdf>

Figure 13. The cost of OVEC generation to AES Ohio

| Month | A AES's total OVEC charges | B AES's capacity market earnings from OVEC plants | C = A + B Remainder to be recovered | D AES's reported PJM settlements | E = C + D Gain/(Loss) | F AES's share of OVEC generation (MWh) | G = E / F Gain/(Loss) per MWh |
|----------------------------------|-------------------------------|--|--|-------------------------------------|--------------------------|---|----------------------------------|
| January 2020 | (\$2,441,783) | | | \$1,324,996 | | 43,423 | |
| February 2020 | (\$2,319,610) | | | \$1,098,962 | | 38,495 | |
| March 2020 | (\$2,505,114) | | | \$902,540 | | 31,641 | |
| April 2020 | (\$2,325,663) | | | \$600,441 | | 17,881 | |
| May 2020 | (\$2,156,559) | | | \$692,317 | | 20,180 | |
| June 2020 | (\$2,294,749) | | | \$1,052,129 | | 41,029 | |
| July 2020 | (\$2,573,569) | | | \$1,413,575 | | 46,159 | |
| August 2020 | (\$2,517,914) | | | \$1,274,771 | | 44,042 | |
| September 2020 | (\$2,391,031) | | | \$906,507 | | 32,640 | |
| October 2020 | (\$2,433,393) | | | \$963,340 | | 28,707 | |
| November 2020 | (\$2,560,939) | | | \$1,138,162 | | 42,826 | |
| December 2020 | (\$3,470,840) | | | \$1,616,031 | | 55,597 | |
| Total or weighted average | (\$29,991,165) | | | \$12,983,772 | | 442,620 | |

Sources: LEI DR 02-009 - Attachment 1 - CONFIDENTIAL ("OVEC bill"), LEI-DR-06-003 Attachment 1 Part2.pdf, LEI-DR-06-003 Attachment 1 Part1.pdf, and LEI-DR-06-003 Attachment 3

This conclusion is consistent with LGR rider. OVEC invoices AES Ohio for AES Ohio's entitlement to the output of the plants. AES Ohio sells this entitlement into PJM, which results in a net deficit. The difference is billed to AES Ohio's customers through the LGR rider.

4.3.3.2 Recommendations

The current ICPA does not expire until June 30, 2040. AES Ohio's customers could be locked into paying a premium for energy and capacity from the OVEC plants in future years, though market prices could change in the future, so it is possible that the premium could become a discount. Commission may wish to re-examine the role of Component D, which appears to LEI to be a return to capital.

4.3.4 LGR Rider reporting components

As a result of the passage of HB 6, the RR Rider terminated on December 31, 2019. The LGR Rider was implemented on January 1, 2020 and became effective on that date. The current audit period covers the calendar year 2020, therefore, the LGR Rider cost covered in the audit includes the period from January 1, 2020, to December 31, 2020.

The LGR Rider features two parts, the second of which in turn consists of two parts:

- Part A (the statewide rate) is the LGR cost for the next six months. This cost is a projection based on estimates provided by individual companies and then rolled up for a state-wide total; and
- Part B (a rate particular to each EDU) which represents the true ups from estimated costs to actual costs. Part B also includes true-ups from the RR, which was in effect until December 2019.

Parts B is the focus of the audit, because it covers actual costs (rather than projected costs). AES Ohio provided its calculations of costs and cumulative balances in AES Ohio in LEI-DR-06-002 -

Attachment 1, LEI verified that the rates AES Ohio used were consistent with the rates published in AES Ohio’s LGR Rider tariffs.⁵⁰

4.3.5 Analysis of cumulative balances

The cumulative under-recovery of the RR balance as of December 2019 was \$346,240 (the last column of Figure 14). The \$346,240 balance was not collected at all in the first half of 2020 because the new LGR Rider was not in effect yet. The balance began to be collected in the LGR Rider beginning in July 2020. By the end of December 2020, the RR unrecovered balance was very small, at \$7,511.

Figure 14. Part B of AES Ohio’s Rider LGR 2020 (RR final true-up)

| Period | DP&L RR | | LGR Part B - Rider RR Final True-up | | Under/(Over) Recovery for Period | Cumulative Under/(Over) Recovery |
|----------------|-----------------------------------|-------------------------|-------------------------------------|-------------------------------|----------------------------------|----------------------------------|
| | Actual OVEC (RR) Net (Gains)/Loss | Actual RR Rider Revenue | Actual LGR Part B Res Revenue | Actual LGR Part B C&I Revenue | | |
| | Balance at 12/31/2018 | | | | | |
| January 2019 | \$ 501,727.42 | \$ 810,285.08 | | | \$ (308,558) | \$ (2,758,311) |
| February 2019 | \$ 1,154,003.16 | \$ 827,224.61 | | | \$ 326,779 | \$ (2,431,532) |
| March 2019 | \$ 591,428.71 | \$ 737,353.24 | | | \$ (145,925) | \$ (2,577,457) |
| April 2019 | \$ 1,670,338.38 | \$ 674,454.93 | | | \$ 995,883 | \$ (1,581,573) |
| May 2019 | \$ 1,018,730.42 | \$ 645,711.42 | | | \$ 373,019 | \$ (1,208,554) |
| June 2019 | \$ 1,138,670.55 | \$ 684,960.13 | | | \$ 453,710 | \$ (754,844) |
| July 2019 | \$ 904,674.30 | \$ 813,861.16 | | | \$ 90,813 | \$ (664,031) |
| August 2019 | \$ 1,110,969.44 | \$ 868,395.54 | | | \$ 242,574 | \$ (421,457) |
| September 2019 | \$ 1,075,955.85 | \$ 763,464.61 | | | \$ 312,491 | \$ (108,966) |
| October 2019 | \$ 1,193,965.34 | \$ 748,010.59 | | | \$ 445,955 | \$ 336,989 |
| November 2019 | \$ 722,274.57 | \$ 964,740.93 | | | \$ (242,466) | \$ 94,523 |
| December 2019 | \$ 766,378.56 | \$ 514,660.72 | | | \$ 251,718 | \$ 346,240 |
| January 2020 | | - | - | - | - | \$ 346,240 |
| February 2020 | | - | - | - | - | \$ 346,240 |
| March 2020 | | - | - | - | - | \$ 346,240 |
| April 2020 | | - | - | - | - | \$ 346,240 |
| May 2020 | | - | - | - | - | \$ 346,240 |
| June 2020 | | - | - | - | - | \$ 346,240 |
| July 2020 | | | \$ 23,518 | \$ 36,066 | \$ (59,584) | \$ 286,657 |
| August 2020 | | | \$ 23,446 | \$ 36,478 | \$ (59,924) | \$ 226,733 |
| September 2020 | | | \$ 23,481 | \$ 35,214 | \$ (58,696) | \$ 168,037 |
| October 2020 | | | \$ 23,480 | \$ 31,339 | \$ (54,819) | \$ 113,218 |
| November 2020 | | | \$ 23,438 | \$ 26,894 | \$ (50,331) | \$ 62,887 |
| December 2020 | | | \$ 23,527 | \$ 31,849 | \$ (55,376) | \$ 7,511 |

Source: LEI-DR-06-002 - Attachment 1

In Figure 15 below, AES Ohio provided its net (gains)/losses on the OVEC contract (see first column). LEI verified that these net (gains)/losses correspond to the journal entries in LEI-DR-06-003-Attachment 3_Dec 2020.pdf (p 4 of 18), referred to in that document as “net costs,” in which the OVEC costs are offset by PJM revenues.

To arrive at monthly under/(over) recovery for each month, net cost (aka net (gains)/losses) revenues from the LGR Rider (from residential and commercial customers, and revenues from AES Ohio’s share of FirstEnergy’s entitlement) are subtracted. The last column in Figure 15 shows the sum of cumulative under/(over) recovery of the LGR Rider and the cumulative under/(over) recovery of the RR.

⁵⁰ AES Ohio Tariff, No. D40, Fifth Revised Sheet, effective January 1, 2020, and Sixth Revised Sheet effective July 1, 2020.

Figure 15. Part B: Actual cost and cumulative actual cost of AES Ohio's Rider LGR 2020

| Period | DP&L Part A | | FE Part B | | Part A LGR current costs | | Under/(Over) | Cumulative Under/(Over) | Cumulative under/(over) recovery of LGR plus cumulative under / (over) recovery of RR |
|----------------|------------------|---------------------|--------------|---------------------|--------------------------|----------------------------|--------------|-------------------------|---|
| | Actual OVEC LGR | Actual LGR | First Energy | Actual LGR | FE Part B | First Energy | | | |
| | Net (Gains)/Loss | Part A Res Revenues | Res Revenues | Part A C&I Revenues | C&I Revenues | Recovery of LGR for Period | | | |
| January 2020 | \$1,372,385 | \$113,749 | | \$359,582 | | | \$899,054 | \$899,054 | \$1,245,295 |
| February 2020 | \$988,597 | \$233,460 | | \$348,556 | | | \$406,580 | \$1,305,635 | \$1,651,875 |
| March 2020 | \$1,541,161 | \$233,813 | \$44,422 | \$346,315 | \$67,754 | \$848,856 | \$2,154,491 | \$2,500,731 | |
| April 2020 | \$1,750,470 | \$233,868 | \$110,908 | \$307,505 | \$171,761 | \$926,429 | \$3,080,920 | \$3,427,160 | |
| May 2020 | \$1,440,017 | \$233,840 | \$112,349 | \$282,168 | \$177,054 | \$634,605 | \$3,715,525 | \$4,061,766 | |
| June 2020 | \$1,291,387 | \$234,879 | \$112,636 | \$335,395 | \$160,466 | \$448,011 | \$4,163,536 | \$4,509,777 | |
| July 2020 | \$1,181,896 | \$272,809 | \$118,601 | \$440,516 | \$145,501 | \$204,468 | \$4,368,005 | \$4,654,662 | |
| August 2020 | \$1,438,983 | \$271,974 | \$139,548 | \$445,552 | \$142,119 | \$439,791 | \$4,807,796 | \$5,034,529 | |
| September 2020 | \$1,315,257 | \$272,382 | \$268,118 | \$430,119 | \$401,366 | (\$56,729) | \$4,751,067 | \$4,919,104 | |
| October 2020 | \$1,523,524 | \$272,370 | \$293,352 | \$382,782 | \$454,283 | \$120,737 | \$4,871,803 | \$4,985,021 | |
| November 2020 | \$1,429,852 | \$271,876 | \$295,150 | \$328,485 | \$450,316 | \$84,025 | \$4,955,828 | \$5,018,715 | |
| December 2020 | \$1,552,888 | \$272,919 | \$295,258 | \$389,008 | \$413,872 | \$181,832 | \$5,137,661 | \$5,145,172 | |

Note: Billing involves a two-month lag, so for example, the March 2020 payment is from January 2020 billing.

Source: LEI-DR-06-002 – Attachment 1, tab “LGR template for tracking,” and LEI-DR-06-003 Attachment 3_Dec 2020.

4.3.5.1 Recommendations

LEI found the LGR cumulative balances are consistent with OVEC actual costs and journal entries and has no recommendations.

5 Disposition of energy and capacity

5.1 Scope and background

5.1.1 Scope

OVEC's generation offer practices and outcomes impact AES Ohio's ratepayers, and therefore, are within the scope of this audit.

The chapter addresses the following subtopics:

- organizational structure and qualifications of personnel;
- monitoring, evaluating, and responding to developments in the PJM market; and
- offers into the energy, capacity, and ancillary service markets.

In coming to LEI's conclusions, LEI issued formal data requests, talked with AES Ohio personnel over the phone, and conducted additional research.

5.1.2 Background

PJM offers four types of competitive wholesale markets where large volumes of electricity are traded. The markets are:

- **The Day-Ahead ("DA") energy market** is a forward market (one day forward) for energy and operating reserves, which are cleared simultaneously. This market allows participants to "place generation resource offers, load demand bids, physical schedules, and bilateral transactions for the next day";⁵¹ it calculates prices by physical location.
- **The Real-Time ("RT") energy market** is a spot market (five minutes) for energy and operating reserves, which are cleared simultaneously. The RT market allows participants to "place updated generation resource offers and updated load forecasts; it then provides dispatch instructions for the lowest-cost resources to satisfy system demand without overloading the transmission network and calculates prices by physical location."⁵²
- **A forward capacity market, the RPM**, discussed previously. Generation resources which clear the capacity auction are required to offer power into the energy market for the year

⁵¹ "Understanding the Differences Between PJM's Markets." PJM Interconnection. <<https://learn.pjm.com/-/media/about-pjm/newsroom/fact-sheets/understanding-the-difference-between-pjms-markets-fact-sheet.ashx?la=en>>

⁵² Ibid.

for which they are committed. They also commit to serve PJM's emergency needs whenever called upon.⁵³

- **An ancillary service ("A/S") market** is operated to procure regulation and reserves to help balance the transmission system as electricity is moved from generators to end-users.⁵⁴

5.2 Evaluative criteria

LEI focused its audit of disposition of energy and capacity on answering the following questions:

1. Is the current energy scheduling department's organization and staffing adequate? Do they follow operating procedures appropriately?
2. Does organization and staffing encourage best practices for interacting with the PJM markets?
3. Does OVEC adequately follow developments in the PJM stakeholder process?
4. Are generation resource offers prepared and submitted in the PJM markets so as to optimize utilization and revenues of OVEC's generation fleet?
5. Does OVEC have sound strategies to bid into the capacity markets?
6. Is the level of participation in the A/S market prudent?

5.3 Findings and conclusions

5.3.1 Organization and staffing

OVEC-IKEC's Energy Scheduling Department is responsible for maintaining a generation dispatch center for operation in the PJM RT market, participation in the DA market, and operational compliance. This Department operates in compliance with the North American Electric Reliability Corporation ("NERC") and the regional reliability organization's Operating Policies, keeps track of *"the latest practices and procedures with regard to energy scheduling and consistently apply standard work procedures to ensure efficiency and economy in the operation of the department – including applicable PJM requirements."*⁵⁵

⁵³ Understanding the Differences Between PJM's Markets. PJM Interconnection. <<https://learn.pjm.com/-/media/about-pjm/newsroom/fact-sheets/understanding-the-difference-between-pjms-markets-fact-sheet.ashx?la=en>>

⁵⁴ PJM ancillary service. <<https://www.pjm.com/markets-and-operations/ancillary-services.aspx>>

⁵⁵ LEI-DR-01-008.

CONTAINS CONFIDENTIAL INFORMATION

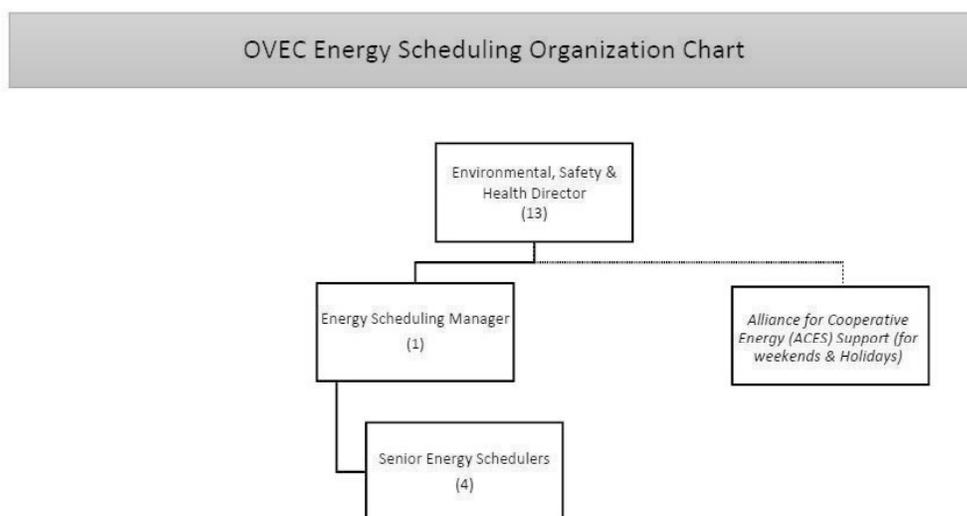
There is one Energy Scheduling Manager in the Energy Scheduling Department and four senior Energy Schedulers (see Figure 16).⁵⁶

- The Energy Scheduling Manager provides daily supervision, direction, and oversight of the Department and serves as a point of contact for Sponsoring Companies, PJM, the OVEC leadership team, and the third-party contractor that provides energy scheduling support services on weekends and holidays.
- The Energy Schedulers' duties and responsibilities include but are not limited to: "1) determine the unit operating status and prepare and enter schedules for the sale of generation on behalf of Sponsor Companies on both a DA basis and a RT basis. The energy is offered in accordance with the terms of the Inter-Company Power Agreement, consistent with approved Operating Committee Procedures and PJM market requirements; 2) submit and confirm energy transaction tags using the electronic tagging system necessary to support the power transactions, and perform this function by approved backup procedures if tagging system fails; 3) receive, record, and maintain logs of normal and emergency operating conditions; 4) maintain records of generating units such as unit capabilities, unit de-rates and reasons for each de-rate, maintenance, and forced and planned unit outages; 5) request and coordinate through PJM unit outages, unit de-rates and special unit load requests for environmental testing, seasonal unit capability testing and other required unit performance testing via PJM software in a real time as well as a prospective basis; 6) prepare daily summaries of total generation and demand as required, including the requirements of NERC and the regional reliability organization."⁵⁷
- The Alliance for Cooperative Energy ("ACES") is a third-party contractor that provides energy scheduling support services during weekends and holidays.

⁵⁶ LEI-DR-01-008 – Attachment 1.

⁵⁷ LEI-DR-01-008.

Figure 16. OVEC Energy Scheduling Organization Chart



Note: There were no position vacancies in 2020.

Source: LEI-DR-01-008-Attachment 1.

5.3.2 OVEC's processes for placing offers into the PJM energy markets

OVEC's energy must be offered in accordance with the terms of the ICPA, and consistent with approved Operating Committee Procedures and PJM market requirements.

LEI understands that OVEC's Energy Scheduling department has an internal daily call every non-holiday weekday morning to review unit status and availability, including applicable unit de-rates, potential unit liabilities, outage status, and expected unit return-to-service dates (see Figure 17). OVEC uses this information to formulate the DA unit offers into the PJM market. Before the morning call, the Energy Scheduling department also receives a daily unit status report from each plant and the information in the status report is updated during the morning calls based on real-time unit operating status. On weekends and holidays, OVEC holds a less formal daily meeting among the OVEC's system operations personnel and the contractor that provides Energy Scheduling functions.⁵⁸

⁵⁸ LEI-DR-01-003 – Attachment 1 – Confidential.

Figure 17. OVEC normal daily scheduling timeline

| Eastern prevailing time | Action |
|-------------------------|---|
| 7:30-8:15 | <i>OVEC's Morning Conference Call among both Plants and the System Office is held to review maintenance activities at both Plants. This information is used to project the amount of Available Power.</i> |
| 8:15-8:30 | <i>OVEC Energy Scheduling personnel determine the reserved Available Energy.</i> |
| 8:30 | <i>Notification to Non-PJM Sponsors of their reserved Available Energy along with a request for each Non-PJM Sponsor to schedule their share of such power. Options for the Non-PJM Sponsor's requested schedules are: (i) only their reserved Available Energy; (ii) their reserved Available Energy plus any additional energy that other Non-PJM Sponsors may not take; (iii) their reserved Available Energy plus any additional up to a MW "cap;" (iv) a MW amount less than their reserved Available Energy down to zero (releasing the additional energy to the other Non-PJM Sponsors). If OVEC anticipates the possibility of a Minimum Loading Event, the Sponsoring Companies will be informed of each Sponsoring Company's PPR share of the Total Minimum Generating Output. This will allow each Sponsoring Company to know the minimum amount of power they would need to schedule to avoid any Minimum Loading Event Costs if a Minimum Loading Event would occur.</i> |
| | <i>Notification to PJM Sponsors of their aggregate share of reserved Available Energy. OVEC offers the PJM Sponsors' aggregate share of reserved Available Energy into the PJM Market Gateway system.</i> |
| 9:00 | <i>Non-PJM Sponsors respond to OVEC Energy Scheduling as to what option they would like concerning their reserved Available Power, including the use of Secondary Delivery Point if desired.</i> |
| 9:30 | <i>If OVEC Energy Scheduling personnel determine from the responses that a Minimum Loading Event will occur, they will contact the Sponsoring Companies that elected not to schedule at least their PPR share of the Total Minimum Generating Output. At this time these Sponsoring Companies will be informed of their share of the Minimum Loading Event Costs.</i> |
| 9:45 | <i>Non-PJM Sponsors who were contacted at 8:30 respond as to whether they would like to change their schedule.</i> |
| 10:00 | <i>E-tags for the sale of Available Power are submitted by OVEC Energy Scheduling personnel.</i> |
| Post-10:00 | <i>OVEC will honor any Non-PJM Sponsor's request for changes after 10:00 as reasonably practicable, subject to market rules.</i> |

Source: LEI-DR-01-005_Confidential_Attachment_1 (OVEC Operating Procedures effective November 15, 2019).

Initially, when OVEC became fully integrated into the PJM market in November 2018, there was no formal process whereby OVEC could evaluate prior day performance data. OVEC subsequently established a daily internal PJM Demand Comparison Report, which provides operating data that includes a unit by unit hourly comparison of actual net generation versus PJM demand, noting that “[t]his report is also made available to plant operations personnel to aid them in evaluating prior day unit and operations related performance.”⁵⁹

5.3.3 Generation offers

All of AES Ohio’s share of the energy output of the Kyger Creek and Clifty Creek power plants was sold into the PJM DA and RT markets.⁶⁰

OVEC has typically self-scheduled all but one of the units (i.e., it offered them as “must-run”) in accordance with the OVEC Operating Committee procedures, as approved by the Operating Committee. *“At the request of the PJM Sponsors, OVEC will offer the PJM Sponsors’ aggregate share of reserved Available Energy into PJM Day-Ahead Energy Market with a Commitment Status of “Must Run” (or some other Commitment Status as approved by all Sponsors), or as specified below with respect to “Clifty Creek Unit 6 or in the event of coal inventory stockpile shortages due to contractual or fuel delivery issues, for each available unit, such that the PJM Sponsors’ aggregate share of reserved Available Energy is fully scheduled and subject to real-time PJM dispatch.”*⁶¹

From the time OVEC joined PJM in 2018 until 2020, OVEC’s strategy for the Kyger Creek and Clifty Creek units (except for Clifty Creek Unit 6) was to self-schedule the resource, which was consistent with the sponsor-approved Operating Committee procedures, to make sure the units were in service and available for dispatch in the DA market. The only time that this was not done was *when maintenance outages are planned or in the case of a forced outage. Other potential exceptions could include “unusual non-market related events such as coal shortages, impacts from a natural disaster or global pandemic and/or some form of force majeure event out of OVEC’s control.”*⁶² Unit 6 at Clifty Creek was the only unit that was not self-scheduled; it was (and is) offered based on economics during summer ozone non-attainment periods.⁶³

⁵⁹ LEI-DR-01-003 – Attachment 1 – Confidential.

⁶⁰ LEI-DR-01-001.

⁶¹ LEI-DR-01-005_Confidential_Attachment_1: OVEC Operating Procedures effective November 15, 2019.

⁶² LEI-DR-01-003.

⁶³ In the summer, ozone is easily formed through the interaction with heat and sunlight, and as temperatures change throughout the day, so do the levels of ozone. The non-attainment status is based on the 3-year average of the 4th highest daily concentrations over an 8-hour period, as of July 31, 2019, EPA designated 51 non-attainment areas under the 2015 8-hour Ozone NAAQS, including part of Ohio and Indiana.

In 2020, owing to low energy prices, OVEC units were committed on an economic basis, rather than self-scheduled (i.e., offered as “must run”) temporarily, from April 14, 2020 through June 30, 2020.⁶⁴

LEI recommends that AES Ohio and the other members of the Operating Committee allow this flexibility on an ongoing basis. Financial risk is minimal because if a unit is offered based on economics and PJM needs to dispatch it, PJM will provide uplift payments to make whole the entire cost of operation (as discussed previously). Therefore, ideally, the units would be committed based on economics all or most of the time. However, coal plants are generally not designed for this kind of operation, and repeated start-up of coal plants can damage equipment. Periods of non-operation also cause difficulties in managing staffing and fuel deliveries

5.3.4 AES Ohio’s engagement in the OVEC Operating Committee

The OVEC Operating Committee consists of one member from OVEC and one member from each of the Sponsoring Companies (if two or more Sponsoring Companies are affiliates, they can only have one member appointed to the Operating Committee). In support of ICPA, the Operating Committee establishes and modifies OVEC’s scheduling, operating, testing and maintenance procedures, including the establishment or modification of “(1) procedures for scheduling delivery of available energy; (2) procedures for power and energy accounting; (3) procedures for the reservation and scheduling of firm and non-firm transmission service under the Tariff for the delivery of Available Power and Available Energy; (4) the Minimum Generating Unit Output; and (5) the form of notifications relating to power and energy and the price thereof.”⁶⁵ Additionally, the Operating Committee provides recommendations to OVEC’s Board of Directors when other problems arise which may affect the transactions under the ICPA. In order to reach a decision, the OVEC Operating Committee must receive at least two-thirds of the affirmative vote from the members, regardless of the number of participating members at any meeting.⁶⁶

AES Ohio confirmed that the OVEC Operating Committee held one in-person meeting and one conference call in 2020. AES Ohio appointed representatives to participate in all the meetings (see Figure 18).

⁶⁴ In the summer, ozone is easily formed through the interaction with heat and sunlight, and as temperatures change throughout the day, so do the levels of ozone. The non-attainment status is based on the 3-year average of the 4th highest daily concentrations over an 8-hour period, as of July 31, 2019, EPA designated 51 non-attainment areas under the 2015 8-hour Ozone NAAQS, including part of Ohio and Indiana.

⁶⁵ LEI-DR-06-001_Attachment_1

⁶⁶ LEI-DR-06-001_Attachment_1

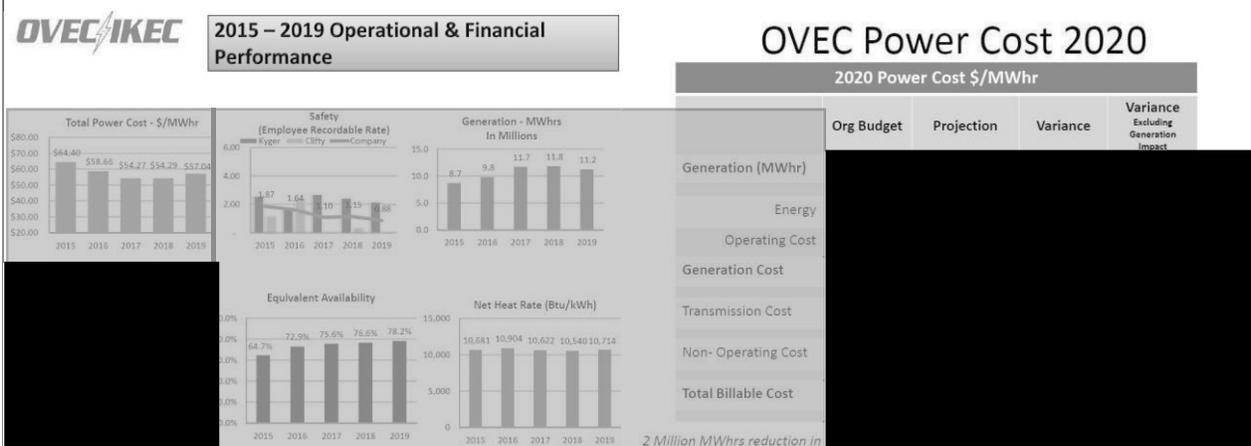
Figure 18. AES Ohio's participation in OVEC Operating Committee meetings in 2020

| Meeting date | Meeting type | DEO's representatives in attendance | Subject |
|----------------|--------------|-------------------------------------|---|
| April 14, 2020 | in-person | 1 | Discuss providing OVEC the ability, on a temporary basis (to May 31, 2020), to offer the units economic or must run due to direct and indirect impacts of COVID-19 pandemic |
| May 6, 2020 | virtual | 1 | OVEC Operating Committee annual meeting |

Source: LEI-DR-01-006.

The OVEC Operating annual meeting held on May 6, 2020, covered a variety of topics such as DOE Arranged Power Agreement Termination and System Reconfiguration Update, fuel updates and coal strategy, participation in the PJM regulation market, review of economic offers, ACES updates, environmental compliance update, power costs, and review of operational and financial performance and transmission revenue (see Figure 20). The OVEC Operating Committee's conferences served to review the operating and financial performances of OVEC as well as to discuss relevant updates in the PJM market. Figure 19 shows the operational and financial performance data presented in the 2020 OVEC Operating annual meeting. The minutes of the meeting were recorded by a Committee Chair-appointed Recording Secretary and saved in an electronic format.⁶⁷

Figure 19. OVEC operational and financial performance - 2020 OVEC Operating annual meeting



Source: LEI-DR-01-006_Confidential_Attachment_2.

LEI believes AES Ohio is well represented in OVEC Operating Committee's meetings with active engagement and meeting notes that were appropriately documented.⁶⁸

⁶⁷ LEI-DR-01-011.

⁶⁸ LEI DR 01-006 - Attachment 2 - Confidential.

Figure 20. OVEC Operating Committee May 6,2020 agenda and notes

OVEC Operating Committee Meeting No. 81
06 May 2020
Conference Call
Agenda

-
- I. **Administration** (Cunningham; 5 Mins.;0930-0935)
 - A. Roll Call
 - B. Appoint Clark and Brady recording secretaries (S. McKee official)
 - C. Alternate Members Present and Authorized to Vote
 - D. Review of voting procedures
 - E. Standards of Conduct statement

 - II. **Approval of the minutes from the 09 May 2019 Meeting (No. 80), 08 July 2019 Conference Call, and 14 Apr 2020 Conference Call** (5 mins; 0935-0940)

 - III. **Election of Officers** (5 mins; 0940-0945)

 - IV. **Subcommittee Reports**
 - A. Price-based Offer Process for Coal Conservation Approved by the Committee 11/15/19 (Taylor; 5 mins; 0940-0945)

 - V. **Agenda Items**
 - A. DOE Arranged Power Agreement Termination and System Reconfiguration Update (Squibb/Brown/Chisling; 10 mins; 0945-0955)
 - B. Fuel Update and Coal Strategy (Cooper; 15 mins; 0955-1010)
 - C. Participation in PJM Regulation Market (All; 15 mins;1010-1025)
 - D. Review of Economic Offers (Cooper; 5 mins; 1025-1030)

 - Break (10 mins. 1030-1040)**

 - E. ACES Updates (Squibb-ES, Clark, Smith-TOP; 10 mins;1040-1050)
 - F. Environmental Compliance Update (Brown, Coriell; 15 mins;1050-1105)
 - G. Review of 2019 Operational and Financial Performance, Update of 2020 Operational and Financial Performance (Cooper; 15 mins; 1105-1125)
 - H. Transmission Revenue Discussion – Standing Item (All, 5 mins;1125-1130)

 - VI. **New Business/Open Discussion** (All; 15 mins;1135-1150)
 - A. Other

 - VII. **Future Meeting**
 - A. May 2021 Location TBD

Source: LEI-DR-01-006_Attachment_1.

5.3.5 OVEC's participation in the PJM stakeholder process

OVEC is a full member of PJM, and therefore has a multifaceted approach to participating and following developments in the PJM market, including attending via teleconference and/or in person various stakeholder meetings (e.g., Market Implementation Committee, Markets and Reliability Committee, Operating Committee, Planning Committee, Stakeholder Process Training, and the Tech Change Forum). In addition, multiple OVEC personnel subscribe to various PJM email lists associated with the stakeholder groups for additional awareness of

ongoing events and updates at PJM. Sponsoring Companies also contact OVEC to ensure that OVEC is aware of any applicable changes that may affect its operations in the PJM market.⁶⁹

5.3.6 Capacity market

AES Ohio, through its ownership share of OVEC, offered capacity into the PJM annual BRA auctions, for the RTO Locational Delivery Area (“LDA”) during the audit period of January 1 through December 31, 2020.⁷⁰ As noted previously, the BRA capacity auctions are held three years before the delivery year.

AES Ohio, as an RPM entity, must offer in the capacity market all the available capacity on the OVEC units, according to PJM rules. AES Ohio offered its OVEC share as a Capacity Performance (“CP”) resource⁷¹ into the 2019/2020 BRA and the 2020/2021 BRA.⁷² These auctions were held in 2016 and 2017.

AES Ohio’s strategy for the 2020/21 BRA [REDACTED]
[REDACTED]
[REDACTED]⁷³ In the 2020/21 BRA, AES Ohio offered a total of [REDACTED] (see Figure 21), compared to [REDACTED] in the 2019/2020 BRA.⁷⁴ LEI believes this strategy could be improved upon. It does not leave open the opportunity to earn bonus payments for over-performance during PJM’s performance assessment hours (“PAH”), because it involves offering all the OVEC capacity that belongs to AES Ohio. LEI recommends that AES Ohio consider developing price and volume offer pairs based on analysis of bonus payments and penalties at various MW offer levels.

⁶⁹ LEI DR-01-007.

⁷⁰ LEI DR-01-013.

⁷¹ Capacity Performance Resource: A generating unit, demand resource, or energy efficiency resource that has obligated itself to deliver electricity whenever PJM determines it is needed to meet power system emergencies (Source: PJM Glossary).

⁷² LEI DR 01-002 – Attachment 1 and LEI DR 01-002 – Attachment 2.

⁷³ LEI DR 01-014 – Attachments 1 and 2.

⁷⁴ LEI DR 01-015 – Attachments 1, 2, 3, and 4.

Figure 21. AES Ohio's capacity performance price (\$/MW-day) and volume (MWs) offer in 2020/2021 BRA auction

| Planning Period | Auction Type | Resource Name | Resource Type | Max Offer EFORD | EFORD | OfferedMW | Price | Self Scheduling Option | Self Supply |
|-----------------|--------------|--------------------------------|---------------|-----------------|-------|-----------|-------|------------------------|-------------|
| 2020/2021 | BASE | CLIFTY CREEK 1 OVEC PSEUDO TIE | GEN | | | | | | |
| 2020/2021 | BASE | CLIFTY CREEK 2 OVEC PSEUDO TIE | GEN | | | | | | |
| 2020/2021 | BASE | CLIFTY CREEK 3 OVEC PSEUDO TIE | GEN | | | | | | |
| 2020/2021 | BASE | CLIFTY CREEK 4 OVEC PSEUDO TIE | GEN | | | | | | |
| 2020/2021 | BASE | CLIFTY CREEK 5 OVEC PSEUDO TIE | GEN | | | | | | |
| 2020/2021 | BASE | CLIFTY CREEK 6 OVEC PSEUDO TIE | GEN | | | | | | |
| 2020/2021 | BASE | KYGER CREEK 1 OVEC PSEUDO TIE | GEN | | | | | | |
| 2020/2021 | BASE | KYGER CREEK 2 OVEC PSEUDO TIE | GEN | | | | | | |
| 2020/2021 | BASE | KYGER CREEK 3 OVEC PSEUDO TIE | GEN | | | | | | |
| 2020/2021 | BASE | KYGER CREEK 4 OVEC PSEUDO TIE | GEN | | | | | | |
| 2020/2021 | BASE | KYGER CREEK 5 OVEC PSEUDO TIE | GEN | | | | | | |

Source: LEI DR 01-015 – Attachments 3 and 4.

The BRA clears based on the highest-priced unit needed to meet demand (“pay as cleared”).⁷⁵ In the PJM 2019/2020 and 2020/2021 BRAs, all of AES Ohio’s capacity cleared the market because the offer price was lower than the clearing price in the PJM RTO zone of \$100.00/MW-day for 2019/2020 and \$76.53/MW-day for 2020/2021.

Figure 22. PJM RPM Base Residual Auctions (“BRA”) CP results (\$/MW-day)

| Zone | 2017/2018 | 2018/2019 | 2019/2020 | 2020/2021 | 2021/2022 |
|------|-----------|-----------|-----------|-----------|-----------|
| RTO | \$120.00 | \$164.77 | \$100.00 | \$76.53 | \$140.00 |

Source: PJM Interconnection. 2021-2022-base-residual-auction-report.

The RPM construct is evolving as PJM continuously evaluates the markets it administers. AES Ohio should keep monitoring developments in the capacity market.

5.3.7 Ancillary services

In PJM, some A/S are provided by resources by default, based on the unit being online and integrated into the PJM system. These A/S are Synchronized Reserve, Day-ahead Scheduling Reserve, and Balancing Operating Reserve associated with units that are online, but not fully loaded.⁷⁶ Units are paid if these services are called upon by PJM, but the unit owners do not make specific A/S offers. Other A/S are provided in separate markets, as detailed previously in Section 3.

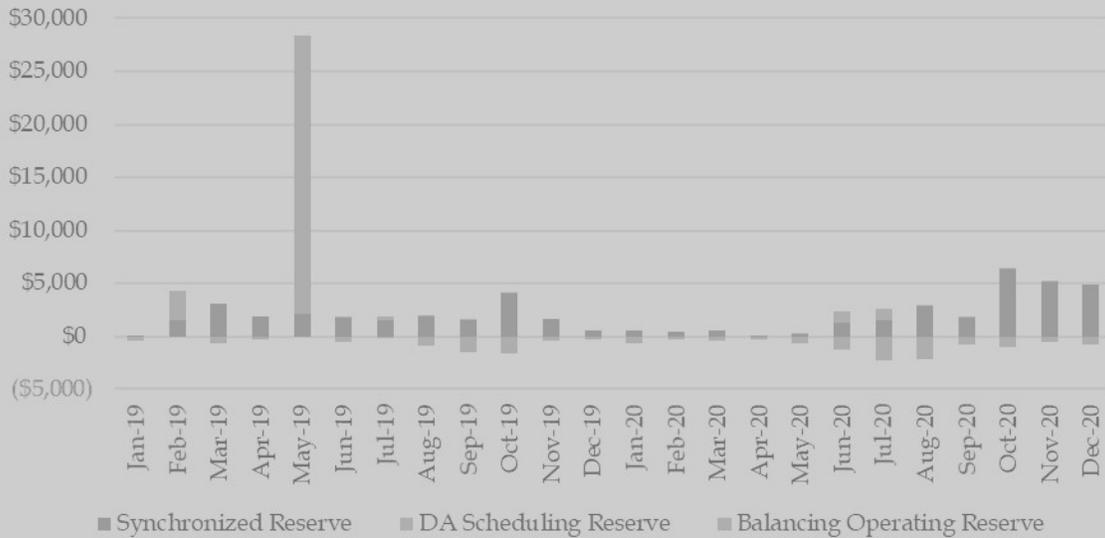
AES Ohio earned revenues in 2020 by supplying Synchronized Reserves and Day Ahead Scheduling Reserves. It incurred charges for Balancing Operating Reserves (see Figure 23). AES

⁷⁵ PJM Manual 18. P. 34. <<https://www.pjm.com/~media/documents/manuals/m18.ashx>>

⁷⁶ LEI-DR-01-004.

Ohio received 4.9% of the cleared and deployed ancillary services charges and credits from OVEC units during the audit period, consistent with its PPR as defined in the OVEC ICPA ⁷⁷

Figure 23. Prorated monthly AES Ohio A/S net earnings



Source: LEI-DR-01-018 - Attachment 1 - Confidential.

OVEC hired a third-party consultant to conduct a study (which is in progress) and provide recommendations on the risks and potential opportunities of OVEC’s participation in additional ancillary services markets, such as regulation.⁷⁸ A final report is expected to be issued in the first quarter of 2022.⁷⁹

5.3.8 OVEC variable costs versus energy prices

There were times in 2020 during which PJM DA prices did not cover the variable costs of running the plants. Under such circumstances, units which are self-scheduled incur losses for their owners; but economically committed units would receive an uplift payment to cover costs if day-ahead prices do not cover variable costs, as noted previously. LEI examined all twelve months in 2020; on a monthly average basis, PJM prices at the Dayton Power & Light (“DPL”) hub were lower than OVEC energy charges most months in 2020, with the exception of July and December (see Figure 24).

⁷⁷ LEI-DR-01-010.

⁷⁸ LEI-DR-01-004.

⁷⁹ LEI-DR-01-016.

Figure 24. OVEC energy charges and average PJM market prices at DPL hub

| Month | OVEC energy charge (\$) | Available energy (billing kWh) | Energy cost per MWh | PJM energy price per MWh | PJM price less OVEC energy cost |
|----------------|-------------------------|--------------------------------|---------------------|--------------------------|---------------------------------|
| January 2020 | \$ 21,506,055 | 886,178,000 | \$ 24.27 | \$ 21.81 | (\$2.46) |
| February 2020 | \$ 19,911,876 | 785,618,000 | \$ 25.35 | \$ 18.24 | (\$7.10) |
| March 2020 | \$ 17,259,070 | 645,727,000 | \$ 26.73 | \$ 16.17 | (\$10.55) |
| April 2020 | \$ 11,813,372 | 364,909,000 | \$ 32.37 | \$ 16.03 | (\$16.34) |
| May 2020 | \$ 11,863,119 | 411,844,000 | \$ 28.81 | \$ 14.36 | (\$14.45) |
| June 2020 | \$ 20,509,196 | 837,329,000 | \$ 24.49 | \$ 17.20 | (\$7.29) |
| July 2020 | \$ 23,413,253 | 942,026,000 | \$ 24.85 | \$ 27.56 | \$2.70 |
| August 2020 | \$ 21,853,536 | 898,813,000 | \$ 24.31 | \$ 21.21 | (\$3.11) |
| September 2020 | \$ 17,786,250 | 666,126,000 | \$ 26.70 | \$ 16.03 | (\$10.67) |
| October 2020 | \$ 15,596,620 | 585,854,000 | \$ 26.62 | \$ 15.98 | (\$10.64) |
| November 2020 | \$ 21,813,799 | 873,994,000 | \$ 24.96 | \$ 19.62 | (\$5.34) |
| December 2020 | \$ 27,989,892 | 1,134,638,000 | \$ 24.67 | \$ 30.02 | \$5.35 |

Source: LEI-DR-02-009_CONFIDENTIAL_Attachment_1 and third-party data provider (DPL Day Ahead LMP - Monthly Average).

5.4 Recommendations

Overall, LEI finds the OVEC energy management group organization and staffing are adequate, and that procedures are thorough and well documented. OVEC and AES Ohio have multiple channels to actively participate in the PJM market developments and are well informed of the PJM market.

LEI makes the following recommendations:

- Must-run offer strategy:** LEI believes the changes to OVEC's must-run strategy due to low energy prices in 2020 were prudent. AES Ohio should encourage the Operating Committee to allow OVEC the option to commit available units based on must-run or economics on an ongoing basis. Based on cost information (start-up costs, minimum run time, etc.) that OVEC would provide to PJM, PJM would dispatch the resource if it is economic. Ideally, the units would be committed based on economics all or most of the time, but LEI is aware that this can be an issue for coal plants, which are designed to operate continuously. Thus, LEI would not expect to see the plants offered based on economics all the time, but the option to do so provides additional flexibility and could reduce costs for customers.
- OVEC Operating Committee:** LEI recommends that AES Ohio encourage the OVEC Operating Committee meetings to be held more frequently to receive more timely updates on each plant's operating performance, cost of service, and profit/loss statements for market-based revenues derived from the PJM markets.
- Offer strategy in PJM capacity auctions:** As noted above, AES Ohio should consider developing price and volume offer pairs based on analysis of bonus payments and penalties at various MW offer levels. This will explicitly recognize the value of the opportunity to earn bonus payments for over-performance during PAHs.

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- **Ancillary service market:** LEI notes that OVEC is evaluating the pros and cons of supplying Regulating Reserves in the PJM market. LEI agrees this will be a useful evaluation..

6 Fuel and variable costs

6.1 Coal procurement

6.1.1 Scope and background

6.1.1.1 Scope

Fuel and variable cost expenses comprise a significant portion of OVEC's costs to AES Ohio's customers. American Electric Power ("AEP"), OVEC's largest Sponsoring Company, provides coal procurement and related services for OVEC, via its American Electric Power Service Corporation ("AEPSC") subsidiary.⁸⁰ AEPSC's regulated Fuel Procurement organization has the responsibility for coal procurement, coal transportation and logistics, as well as coal inventory policy and inventory management for the Kyger Creek and Clifty Creek power stations.⁸¹ These procurement practices and outcomes impact AES Ohio's ratepayers and, therefore, are within the scope of this audit.

This chapter addresses the following topics:

- overview of the coal and transportation procurement processes;
- purchasing process oversight;
- actual coal burn and forecast;
- overall approach to procurement and examination of sample contracts; and
- analysis of delivered coal costs.

In coming to LEI's conclusions, LEI issued formal data requests, attended a virtual site visit, and conducted additional research.

6.1.1.2 Background

As described in more detail below, AEPSC is the organization in charge of procuring fuel, reagents, and transportation for OVEC.

OVEC's two coal plants are nearly identical in design, construction, and operation. The plants were designed to burn bituminous coal from the Illinois Basin and Northern Appalachia regions, and came online in 1955/56.

⁸⁰ LEI-DR-02-001 – Attachment – 1.

⁸¹ LEI-DR-02-001 – Attachment – 1.

6.1.2 Evaluative criteria

LEI focused its audit of the coal procurement process on answering the following questions:

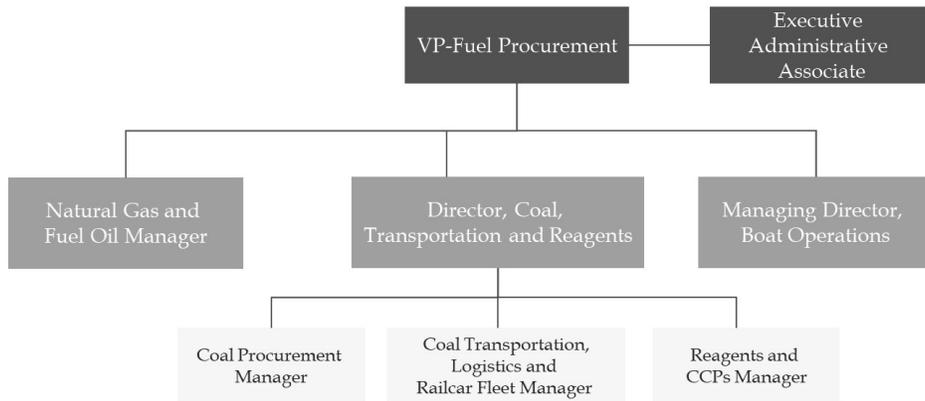
1. Does the coal procurement process provide for sufficient visibility and executive attention?
2. Does OVEC project future deliverability needs and adjust its portfolio to take advantage of new opportunities and/or avoid potential risks?
3. Does OVEC have a strategy in place to maintain a reliable coal supply at a reasonable cost to customers?
4. Does OVEC’s long-term vs spot procurement strategy appropriately balance risk and costs?
5. Do contract terms reflect market awareness and prudence?
6. Is OVEC’s coal procurement process conducted in an appropriately formal manner? Is there analytic rigor, oversight and management attention, and documentation of procurement decisions?
7. Were there any material issues or concerns with coal contract compliance or any disruptive events?

6.1.3 Findings and conclusions

6.1.3.1 AEPSC’s fuel department organization

AEPSC’s Regulated Fuel Procurement Policy and Procedures summarize the roles and responsibilities of the various groups within the regulated Fuel Procurement (“FP”) organization as they pertain to the procurement of fuel, reagents, and transportation. The regulated FP organization operates within the Commercial Operations organization of AEPSC; it is led by a Vice President (“VP”) of fuel procurement, who reports to the Senior Vice President (“SVP”) of the Commercial Operations organization of AEPSC (see Figure 25).

Figure 25. AEPSC regulated Fuel Procurement organization



Source: LEI-DR-02-001 – Attachment – 1 (“American Electric Power Regulated Fuel Procurement Policy and Procedures May 2018”).

CONTAINS CONFIDENTIAL INFORMATION

AEPSC provides procurement and transportation services for the fleet of power plants owned and operated by AEP and its regulated operating companies, as well as OVEC and IKEC. AEPSC's regulated FP department is responsible for "procuring all the fuel (coal, natural gas, and fuel oil), reagents (trona, urea, lime, limestone, activated carbon, sodium bicarbonate, anhydrous ammonia, calcium bromide) and associated transportation services required by the applicable power plants, including the management and operation of the River Transportation Division's barges and tow boats for delivery of coal and some reagents."⁸² This organization also provides AEP's Commercial Operations organization with "current market-based pricing information for generation-related functions on behalf of the regulated operating companies, OVEC, and IKEC."⁸³

The regulated FP organization "communicates with the Production Optimization and the Bid, Offer and Cost Development groups on a daily and monthly basis so that the load forecasts and fuel purchasing are effectively coordinated to make sure plants are receiving adequate supplies of fuel to meet the planned dispatch for generating units over the short-term."⁸⁴ In terms of long-term procurement planning, the regulated FP works with groups such as the Corporate Planning and Budgeting organization which is responsible for developing the Integrated Resource Plan ("IRP"). In addition, the regulated FP organization provides support for fuel-related regulatory activities in response to state and federal agency requirements.⁸⁵

In the regulated FP organization, the VP has the ultimate responsibility to make sure the OVEC plants maintain appropriate and reliable supplies of fuel and reagents in compliance with generating unit requirements, environmental regulations, and transportation.

The Directors and Managers of regulated FP oversee the development, negotiation, execution, and administration of supply and transportation agreements. The Directors and Managers performing the regulated FP organization's functions report to the VP of the regulated FP.⁸⁶ Under the direction of the management, the employees of the regulated FP organization attend meetings and conferences related to fuel, reagents, and transportation, and they also participate in regulatory proceedings when required. The regulated FP periodically reviews and considers changes to the regulated Fuel Procurement Policy and Procedures.⁸⁷

⁸² Regulated Fuel Procurement Organization. LEI-DR-02-001 - Attachment - 1. American Electric Power Regulated Fuel Procurement Policy and Procedures May 2018.

⁸³ Ibid.

⁸⁴ Ibid.

⁸⁵ "General administrative duties." LEI-DR-02-001 - Attachment - 1. American Electric Power Regulated Fuel Procurement Policy and Procedures May 2018.

⁸⁶ Ibid.

⁸⁷ "General administrative duties." LEI-DR-02-001 - Attachment - 1. American Electric Power Regulated Fuel Procurement Policy and Procedures May 2018.

6.1.3.2 Coal procurement strategy

As noted previously, AEPSC procures coal and establishes coal procurement strategy for OVEC. AEPSC’s overall FP Policy is to “secure adequate supplies of competitively-priced coal, natural gas, reagents, fuel oil, and transportation services to meet generation, environmental, and operational requirements at the lowest reasonable deliverable cost over time, while recognizing the dynamic nature of the various associated markets, environmental standards, and regulatory requirements.”⁸⁸ To achieve the strategy objectives, AEPSC maintains “a mix of physical inventories and a portfolio of long-term and short-term agreements for firm and discretionary supplies of fuels, reagents, and transportation for its generating units.”⁸⁹

The strategy specifies coal procurement targets for Year 1 through 5 (see Figure 26) based on OVEC management’s forecast. The coal procurement targets are reviewed by OVEC management on an annual basis. For Kyger Creek, the coal is primarily sourced from the Northern Appalachian Basin, a market with few suppliers. OVEC characterizes its strategy with respect to Kyger Creek as a high-commitment strategy, to help cope with the lack of competition in coal suppliers. Clifty Creek has more options for suppliers from [REDACTED] OVEC’s strategy for Clifty Creek, therefore, involves [REDACTED]

Figure 26. Coal procurement targets

| Power Plants | Market | Year 1 | Year 2 | Years 3 to 5 |
|--------------|------------|------------|------------|--------------|
| Kyger Creek | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |
| Clifty Creek | [REDACTED] | [REDACTED] | [REDACTED] | [REDACTED] |

Source: LEI-DR-02-001 – Attachment – 1: Coal Procurement Strategy: Procurement Targets, Inventory Targets and Supplier Diversity.

6.1.3.3 Coal consumption and coal forecasts

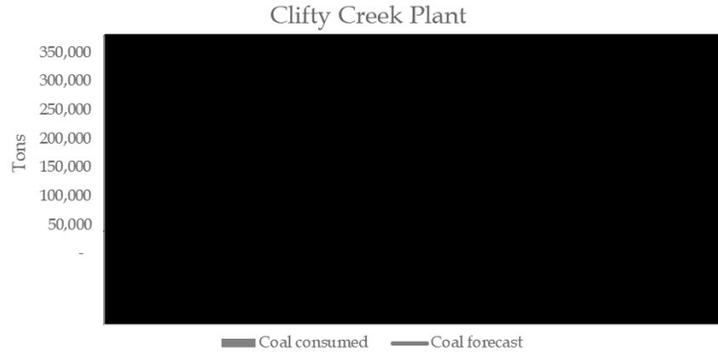
OVEC’s forecast for coal burn is based on its projected generation for each of the units. The coal burn forecast is prepared utilizing a variety of data, such as the delivered cost of fuel, projected generation, fuel handling costs, consumable costs, scheduled outages, and other reliability factors including forced outage rates. The coal forecast projects monthly consumption for 5 years and is typically updated bi-annually. The results of the forecast could indicate the need for a Request for Proposal (“RFP”) depending on inventory levels and committed purchases for the current

⁸⁸ “Regulated FP considerations.” LEI-DR-02-001 – Attachment – 1. American Electric Power Regulated Fuel Procurement Policy and Procedures May 2018.

⁸⁹ Ibid.

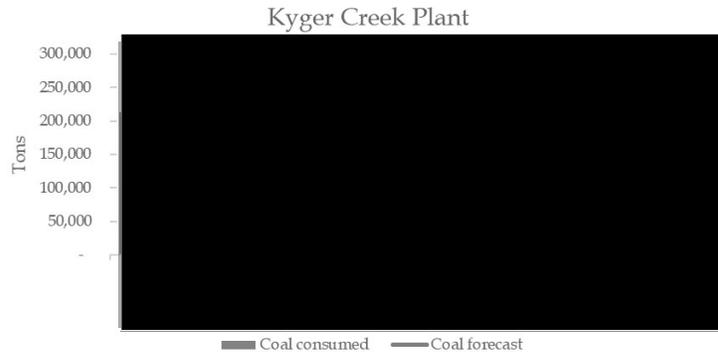
year and future years.⁹⁰ For the near term (upcoming year), forecasts are prepared year during the annual budgeting process and finalized in November, then updated in June or July, in the middle of the budget year. Figure 27 and Figure 28 show forecasted coal burns compared with actual coal burns. Coal volume burned at both plants was consistently lower than the forecast.

Figure 27. Actual coal consumed versus monthly forecast estimate, Clifty Creek



Source: LEI DR 02-007 - Attachment 1 and LEI DR 02-021-Attachment 1 - Confidential.

Figure 28. Actual coal consumed versus monthly forecast estimate, Kyger Creek



Source: LEI DR 02-007 - Attachment 1 and LEI DR 02-021-Attachment 1 - Confidential.

6.1.3.4 Request for proposals for coal supplies

With respect to coal procurement RFPs, the regulated FP stipulates that with the VP's oversight, the RFPs should be issued to seek as many competitive offers as possible to obtain the lowest reasonable delivered cost over time, but the offers should comply with the state-specific

⁹⁰ LEI-DR-02-007.

requirements. Coal procurement RFPs can be issued *“both for long-term contracts or spot orders whenever appropriate and can be sent to any number of qualified suppliers so as to secure the competitive price for the material or service needed.”*⁹¹ All the purchase decisions made as a result of the RFPs should be documented to demonstrate that the Company acted prudently in procuring the commodity or service.⁹²

If unsolicited offers are received for commodities or services for short or long-term agreements, the regulated FP states that these types of offers can be considered and market-based indices, other contract prices or other reasonable methods of comparison should be used to determine whether it is prudent or not to accept those offers. If any of the unsolicited offers are accepted, similar to the RFP process, documentation should be prepared to explain the rationale for the decision.⁹³ LEI finds that the practice of documenting all solicitation processes and outcomes is prudent.

If there are immediate and unavoidable circumstances requiring emergency procurement, *“the abovementioned formal approaches may be waived whenever the fuel or reagents must be purchased, or transportation services must be acquired.”*⁹⁴ However, that should be the decision of the VP of the regulated FP organization, *“with the concurrence of the SVP of Commercial Operations and other senior management as needed.”*⁹⁵ LEI recognizes the need for an emergency procurement process and deems it reasonable to implement such, given the joint decision of the VP, SVP, and other senior management in the absence of the formal process. However, appropriate documentation should still be prepared after the procurement and appropriate follow-up performed in order to help prevent such emergencies from happening again, and to help quickly locate commodity or service providers who can fill in any supply or transportation gaps.

During the audit period, AES Ohio confirmed there were no RFP solicitations issued for coal supplies.⁹⁶

6.1.3.5 Coal supply sources

6.1.3.5.1 Supplier diversity

⁹¹ Request for proposal. LEI-DR-02-001 – Attachment – 1. American Electric Power Regulated Fuel Procurement Policy and Procedures May 2018.

⁹² Ibid.

⁹³ Request for proposal. LEI-DR-02-001 – Attachment – 1. American Electric Power Regulated Fuel Procurement Policy and Procedures. May 2018.

⁹⁴ Emergency procurement. LEI-DR-02-001 – Attachment – 1. American Electric Power Regulated Fuel Procurement Policy and Procedures May 2018.

⁹⁵ Ibid.

⁹⁶ LEI-DR-02-004.

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Based on OVEC’s Coal Procurement Strategy provided in LEI-DR-02-011, OVEC states that their strategy of diversifying coal providers promotes innovation, reduces supply chain risk, and drives competition. OVEC’s stated priority [REDACTED]

[REDACTED]

[REDACTED] 7

During the audit period, Clifty Creek was served by variety of coal suppliers sourcing from the Illinois Basin. The table below shows a list of coal suppliers/sellers for Clifty Creek, the amount of coal procured, and the average unit price (see Figure 29). As mentioned before, OVEC did not execute new coal contracts in 2020. The coal contract with Resource Fuel, LLC, which was entered into nearly ten years ago, featured a higher price than the rest of the coal supply contracts at an average delivered price of \$53.64/ton in 2020, followed by the coal contract with White Stallion Energy, LLC with \$47.89/ton.

Figure 29. Coal procured for Clifty Creek Station, weighted average contract price

| Coal Providers | Quantity (ton) | Coal quality (Btu/lb) | Unit Price (\$/ton) | Effective date | Term |
|-------------------|----------------|-----------------------|---------------------|----------------|------------|
| Alliance 18-004 | 321,986 | 11,500 | \$40.66 | [REDACTED] | [REDACTED] |
| Alliance 18-005 | 622,264 | 11,500 | \$40.00 | [REDACTED] | [REDACTED] |
| Alliance 19-001 | 311,000 | 11,500 | \$44.15 | [REDACTED] | [REDACTED] |
| Hartshrone Mining | 29,564 | 11,300 | \$39.12 | [REDACTED] | [REDACTED] |
| Resource Fuels | 955,438 | 11,500 | \$53.64 | [REDACTED] | [REDACTED] |
| White Stallion | 57,391 | 12,600 | \$47.89 | [REDACTED] | [REDACTED] |

Sources: LEI DR 02-006 Attachments 2 – Confidential and LEI DR 02-005 Attachment 3 – Confidential.

During the audit period, the majority of the coal procured for Kyger Creek was mainly Pittsburgh Seam/Northern Appalachia coal from American Energy Corporation, with another three smaller suppliers. Figure 30 below displays the list of suppliers for Kyger Creek, the volume of coal procured, and the average unit price. OVEC aims to maintain a seasonal inventory of 35-40 days of supply at Kyger Creek.⁹⁸

⁹⁷ LEI DR 02-011 – Attachment 1 – CONFIDENTIAL: Coal Procurement Strategy: Procurement Targets, Inventory Targets and Supplier Diversity.

⁹⁸ LEI DR 02-011 – Attachment 1 – CONFIDENTIAL: Coal Procurement Strategy: Procurement Targets, Inventory Targets and Supplier Diversity.

Figure 30. Coal procured for Kyger Creek Station, weighted average contract price

| Coal Providers | Quantity (ton) | Coal quality (Btu/lb) | Unit Price (\$/ton) | Effective date | Term |
|-----------------|----------------|-----------------------|---------------------|----------------|------|
| Alliance 18-901 | 481,942 | 12,600 | \$44.84 | | |
| Alliance 19-004 | 68,639 | 12,600 | \$46.73 | | |
| American | 1,107,310 | 12,400 | \$43.31 | | |
| Amherst Madison | 19,778 | bituminous* | \$32.00 | | |
| Contura | 351,671 | 13,000 | \$42.59 | | |

Note: Amherst Madison coal quality was specified in the contracts as “raw bituminous”. Generally, bituminous coals have heating values of 10,500 to 14,000 Btu/lb.

Sources: LEI DR 02-006 Attachments 1 – Confidential and LEI DR 02-005 Attachment 2 – Confidential.

6.1.3.6 Coal spot price comparison

To assess the reasonableness of coal purchase prices during the audit period, based on the coal contracts provided by AES Ohio, LEI compared the weighted average coal supply prices in 2020 for Clifty Creek and Kyger Creek against the spot prices from S&P Global Market Intelligence (formerly SNL) Physical Market Survey data, which Energy Information Administration (“EIA”) also relies on as a primary source for coal commodity spot prices (see Figure 31 and Figure 32).

Figure 31. Weighted average coal contract price for Clifty Creek plant versus S&P Physical Market Survey price



Sources: LEI DR 02-006 Attachments 2 – Confidential and third-party data provider.

Note: For Clifty Creek, the SNL Physical Market Survey price is the annual average of “Illinois Basin 11,000, 5.00 Barge.”

Figure 32. Weighted average coal contract price for Kyger Creek plant versus S&P Physical Market Survey price



Sources: LEI DR 02-006 Attachments 1 – Confidential and third-party data provider.

Note: For Kyger Creek, the SNL Physical Market Survey price is the annual average of “Upper Ohio River 12,500, 6.00 Barge.”

LEI found that for the Clifty Creek plant, the coal purchase prices in 2020 were significantly higher (44%) than the spot prices from SNL. The high average price is mainly attributable to the expensive coal purchased from Resource Fuels, LLC, through a contract entered into in 2012, which accounted for more than 40% of the total supply in 2020.

Coal prices for Kyger Creek plant were also higher (16%) than the S&P Physical Markets Survey prices. American Energy Corporation is the largest coal supplier and provided more than 50% of the coal consumed by Kyger Creek. While the contract prices between American Energy Corporation and OVEC might have been a good deal when the contract was secured, it is now above current market price.

6.1.3.6.1 Interruption or loss of supply

OVEC’s “Communication of Event” emergency strategy pertains to [REDACTED]

[REDACTED] OVEC has a very clear flow chart that covers what to report, and to whom, in the event of a loss of supply, in order to minimize losses and maintain regular operations (see Figure 33).

Figure 33. Communication of event process



Source LEI DR 02-11 – Attachment 1 – CONFIDENTIAL: Coal Procurement Strategy: Procurement Targets, Inventory Targets and Supplier Diversity.

6.1.3.7 Hedging policy

The regulated FP states the regulated FP organization may enter into fuel hedges to support key business objectives and reduce fuel price volatility. The primary means to do so is through a portfolio of physical supply agreements of various durations. They believe this *“portfolio ensures less volatile fuel prices, and it also allows some flexibility to leverage shorter-term pricing options when they become available.”*⁹⁹

⁹⁹ Hedging policy. LEI DR 02-001 – Attachment 1. American Electric Power Regulated Fuel Procurement Policy and Procedures May 2018.

Currently, the regulated FP group is not engaged in any financial fuel hedge transactions, citing the risk of losses and associated costs. But FP has not dismissed the option of evaluating hedging opportunities that may be settled financially. The implementation of specific operating company hedging programs would be subject to the appropriate regulatory approvals and cost recovery mechanisms.¹⁰⁰

6.1.3.8 Coal and reagent quality specifications and compliance

AEPSC's Steam Generation Equipment Engineering ("SGEE") group defines the permissible coal specifications and sources for AEP's regulated operating companies' plants as well as OVEC's plants.¹⁰¹ These specifications and sources are utilized by the regulated FP organization to evaluate the coal offers from suppliers. *"When the offers' evaluation is within the qualify specification band, coal quality specifications are considered and financial adjustments are made to provide a comparison at "as delivered" cents per MMBtu cost and acceptable mines will be included in the coal supply contracts."*¹⁰² Periodically, new sources are considered through test burns to diversify the coal choice for each unit, which may lead to more favorable financial results. But new sources must be approved by SGEE before moving forward beyond the test burns.

The *"permissible reagent specifications and sources for AEP's regulated operating companies' plants, as well as OVEC's and IKEC's plants, are established by AEPSC's GET Engineering FGD Systems and Chemical Engineering."*¹⁰³ Factors such as performance guarantees, profitability, service quality, and past experience are taken into account in the reagent proposals.

6.1.3.9 Coal contracts administration

The Energy Contracts and Confirmations group under Enterprise and Credit Risk Management of AEPSC administers the existing and proposed contractual agreements for the purchase and sale of coal, fuel oil, natural gas, reagents, transportation agreements, and ash marketing for OVEC.¹⁰⁴ This group works with regulated FP Directors and Managers, Legal, Credit, Fuel Accounting, Audits, Regulatory Services, and power plant personnel to make sure that contracts appropriately represent the intended business relationship between the parties. They are also responsible for monitoring the regulated operating companies' rights and obligations under the existing contractual agreements.

¹⁰⁰ Ibid.

¹⁰¹ Coal and reagent quality specifications and compliance. LEI DR 02-001 – Attachment 1. American Electric Power Regulated Fuel Procurement Policy and Procedures May 2018.

¹⁰² Ibid.

¹⁰³ Ibid.

¹⁰⁴ "Contract administration." LEI DR 02-001 – Attachment 1. American Electric Power Regulated Fuel Procurement Policy and Procedures May 2018.

The support services from contract administration include the following:¹⁰⁵

- *“Developing and/or reviewing contractual documents under existing and proposed agreements;”*
- *“Monitoring contractual deadlines with regard to volume elections, price reopeners, and term extension elections; issuing written notices to counterparties to inform regulated FP decisions;”*
- *“Determining contract value through pricing and rate development;”*
- *“Providing contractual review, such as analysis of proposed settlements, changes in law, governmental impositions, and other pricing claims;”*
- *“Managing data requirements for internal fuel administration systems which provide database of historical costs and volumes for invoice support and reporting requirements;”*
- *“Monitoring and reporting volume commitment status and tiered pricing under transportation agreements;”*
- *“Administering coal scale calibration adjustments including determination of any applicable pricing adjustments;”*
- *“Providing coal, reagent, fuel oil, natural gas, and transportation contract data for state and federal regulatory filing’s purpose;”*
- *“Administering Force Majeure claims initiated by the regulated FP or counter parties;” and*
- *“Providing accrual recommendations to the group responsible for fuel accounting.”*

6.1.3.10 Coal transportation and transportation costs

For OVEC’s operations, AEPSC’s regulated FP governs the coal transportation service procurement process to achieve compliance by the supplier and maintain adequate supplies of fuel and reagents to meet plant and system requirements.¹⁰⁶ The Coal Transportation, Logistics and Marketing group is responsible for the transportation of coal and other bulk commodities, logistics, and railcar leasing for OVEC’s power plants. They also manage the marketing activities of available capacity at Cook Coal Terminal. The Boat Operations group bears the responsibility for the management and operation of the River Transportation Division’s barges and tow boats for delivery of coal to the plants, and the delivery of some reagents. They have a contractual relationship with a large third-party barge operator for dispatching of the fleet, accounting, as well as cross-charter benefits.¹⁰⁷

As discussed in 6.1.3.2, the procurement strategy for transportation service is to *“provide an appropriate amount of transportation with optimal supply flexibility, considering AEP’s long-term agreements and market conditions, at the lowest reasonable delivered cost over time.”*¹⁰⁸ The

¹⁰⁵ “Contract administration.” LEI DR 02-001 – Attachment 1. American Electric Power Regulated Fuel Procurement Policy and Procedures May 2018.

¹⁰⁶ “Enforcement of agreements.” LEI DR 02-001 – Attachment 1. American Electric Power Regulated Fuel Procurement Policy and Procedures May 2018.

¹⁰⁷ “Organizational structure of regulated FP.” LEI DR 02-001 – Attachment 1. American Electric Power Regulated Fuel Procurement Policy and Procedures May 2018.

¹⁰⁸ “Regulated FP considerations.” LEI DR 02-001 – Attachment 1. American Electric Power Regulated Fuel Procurement Policy and Procedures May 2018.

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transportation service is “*purchased with due consideration of all relevant factors, including: competitive pricing, the quantity needed to maintain an appropriate supply, the quality required to optimize the operating characteristics of the generating stations, the need to meet any applicable environmental standards, the production capability as well as the financial reliability of the supplier, existing contractual obligations, and the ability to address emergencies or other unusual circumstances.*”¹⁰⁹

All the coal used by the Clifty Creek plant is delivered on the Ohio River, and all via barge transportation services provided by Ingram Barge Company with coal supplied from downriver (south of the plant).¹¹⁰

All the coal used by the Kyger Creek plant is also delivered via barge on the Ohio River, but the service provider is Campbell Barge Company. Coal supplies for Kyger Creek are sourced from upriver (north of the plant).¹¹¹

The transportation service cost represents the shipping cost per ton of coal from various shipping locations along navigable waterways (see Figure 34).

LEI compared OVEC’s transportation costs for the Clifty Creek and Kyger Creek Stations to the EIA average annual coal transportation costs using the EIA data set “Coal Basin to State by Waterway.” Given the limited publicly available data, for Kyger Creek Plant, LEI compared the actual annual average coal transportation cost of Northern Appalachian coal to Ohio via barge in 2020 (see Figure 35). For the Clifty Creek Plant, the comparison was to average coal transportation costs for Illinois Basin coal in 2020.¹¹² Figure 35 and Figure 36 show the costs for Kyger Creek and Clifty Creek compared to EIA transportation costs. In 2020, the transportation costs incurred by both plants were higher than the EIA preliminary data but costs improved in 2020, falling to levels closer to EIA averages. Overall, OVEC was able to secure competitive transportation costs to ship coal via barge to the two plants.

¹⁰⁹ Ibid.

¹¹⁰ LEI-DR-02-008.

¹¹¹ Ibid.

¹¹² Coal transportation costs from Illinois Basin to Indiana by waterway is withheld to avoid disclosure of individual company data in EIA website.

Figure 34. Coal transportation contracts

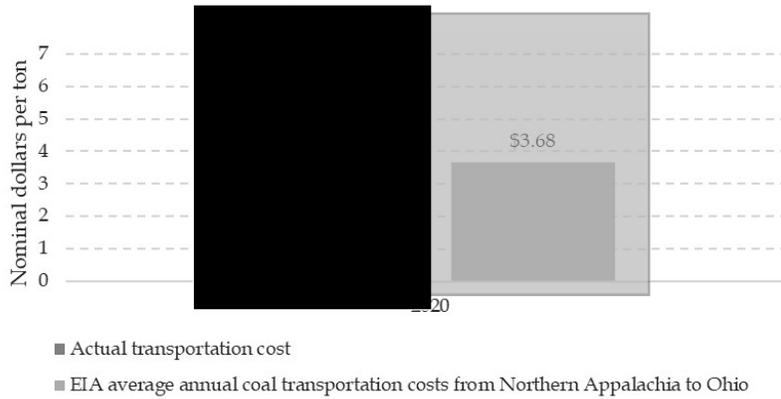
| Provider | Plant | Contract Term Begin | Contract Term End | Contracted Capacity | Routes | Minimum Take | Unit Price | Payment Terms |
|--------------------|-------|---------------------|-------------------|---------------------|--------|--------------|------------|---------------|
| [Redacted Content] | | | | | | | | |

Notes:

1. Unit price via Ohio River for [Redacted] per ton depending on the coal loading points.
2. Unit price via Ohio River for [Redacted] per ton depending on the coal loading points.

Source: LEI DR 02-018 - Attachment 1 - Confidential and LEI DR 02-018 - Attachment 2 - Confidential.

Figure 35. Kyger Creek plant coal transportation cost compared to EIA



Source: EIA data (Average Annual Coal Transportation Costs from Coal Basin to State by Waterway / 2020 data is preliminary); LEI DR 02-16 - Attachment 1 - Confidential

Figure 36. Clifty Creek plant coal transportation cost compared to EIA

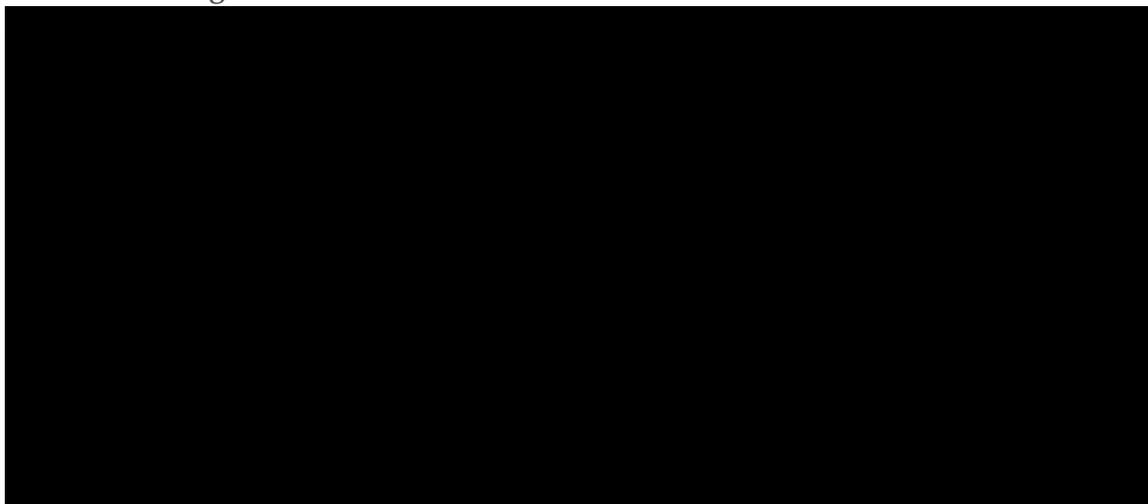


Source: EIA data (Average Annual Coal Transportation Costs from Coal Basin to State by Waterway / 2020 data is preliminary); LEI DR 02-16 - Attachment 2 - Confidential

6.1.3.11 Additional costs

In addition to coal commodity and transportation, costs are incurred to procure and manage coal inventory for Kyger Creek and Clifty Creek. The reagent costs associated with pollution control facilities and allowances are the main variable costs incurred by OVEC to control emissions and comply with environmental regulations. The reagents used in this audit period included trona, urea, limestone, and hydrated lime.¹¹³ During the audit period, reagent costs were somewhat higher than in previous years (see Figure 37).

Figure 37. OVEC reagent costs



Source: LEI DR 02-009 - Attachment 1 - CONFIDENTIAL.

6.1.4 Recommendations

Coal contract terms seem reasonable in terms of compliance with the coal procurement target strategy. Having long- and short-term contracts in place allowed for some volume flexibility. LEI believes the overall coal contracts reflect market awareness and prudence. While there were no formal internal audits conducted of the fuel procurement area, OVEC Management (including the COO, Environmental, Safety & Health Director, Treasurer, Plant Managers, and other OVEC management from the plant and the corporate office) holds a monthly coal strategy conference call with AEP Fuel Procurement.¹¹⁴ These calls include discussions of procurement, inventory levels, planned unit outages, coal market, transportation, reagents and contract delivery or quality issues. The information discussed serves as a means of optimizing decisions and validating actions of procurement, inventory management and shipment/delivery.

LEI makes the following recommendations:

¹¹³ LEI-DR-02-017.

¹¹⁴ LEI-DR-02-013.

- As illustrated in Figure 27 and Figure 28, the coal burn forecasts were consistently higher than the actual burns. LEI recommends that AES Ohio, in its role on the OVEC Operating Committee, examine the process that creates these forecasts and conduct the forecast more frequently to reduce the discrepancies between the actual and estimated coal burns.
- The coal contract prices for Clifty Creek plant were higher than market prices in 2020. However, **the Resource Fuels contract**, which is a very large contract and the one which is most out of line with the current market, is set to expire at the end of 2021. LEI assumes that future contracts will reflect the lower prices currently prevailing in the market.

6.2 Coal inventory management

6.2.1 Scope and background

6.2.1.1 Scope

The regulated FP organization within AEPSC is responsible for coal inventory policy and management of the coal serving the Kyger Creek and Clifty Creek power stations. OVEC's procurement practices and outcomes related to coal inventories impact AES Ohio's ratepayers, and are therefore within the scope of this audit.

This chapter addresses the following topics:

- overview of the coal inventory policy;
- coal inventory control and outcomes; and
- analysis of coal inventory costs.

In coming to LEI's conclusions, LEI issued formal data requests and conducted additional research.

6.2.1.2 Background

Coal inventory management is an important part of reliably and optimally operating OVEC's coal power generation. Coal inventories provide protection against coal supplier default or delays in coal transportation. According to the regulated FP, its job is to ensure *"the availability of an adequate, reliable supply of fuel (and reagents) at the lowest reasonable delivered cost for the generation of electricity."*¹¹⁵ An appropriate quantity of coal is supposed to be maintained at a plant.

6.2.2 Evaluative criteria

LEI focused its audit of coal inventory management on answering the following questions:

¹¹⁵ Proper inventory levels. LEI DR 02-001 – Attachment 1. American Electric Power Regulated Fuel Procurement Policy and Procedures May 2018.

1. Does the coal inventory policy provide for sufficient visibility and executive attention?
2. Did OVEC maintain an appropriate inventory level in compliance with Coal Inventory Policy to avoid excessive inventory surpluses or shortfalls by actively managing transportation capacity and commodity contracts?

6.2.3 Findings and conclusions

6.2.3.1 Coal inventory policy

The regulated FP states that a cross-functional team recommends a fuel inventory target, which is subject to the approval of senior management. The inventory target determination process helps to ensure that each plant’s needs are met.¹¹⁶

During the audit period, OVEC considered the following factors when setting inventory targets: shipment distance to plant, lock risks, river conditions (i.e., water level or presence of ice), full load dispatch around the clock, maintenance/outage to plant and/or coal yard equipment (see Figure 38).

Figure 38. Coal inventory targets

| | Kyger Creek | Clifty Creek |
|----------------------|-------------|--------------|
| Fall/winter season | | |
| Spring/summer season | | |

Source: LEI DR 02-11 – Attachment 1 – CONFIDENTIAL: Coal Procurement Strategy: Procurement Targets, Inventory Targets and Supplier Diversity.

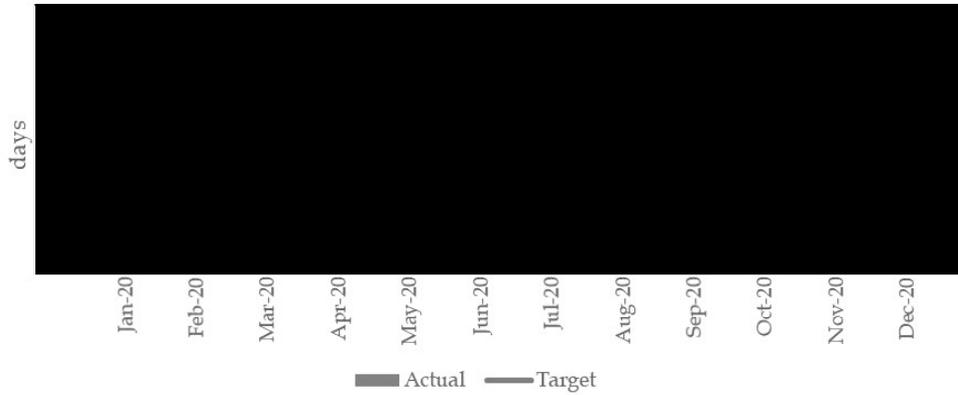
The full-load requirement depends on the units’ summer and winter seasonal capability. Spring/summer capability is usually lower than winter by a few MW because of higher river temperatures (warm river water does not cool the plants as efficiently). The fall/winter season full-load inventory level of each power plant is higher than the spring/summer level.

¹¹⁶LEI DR 02-001 – Attachment 1. “Proper inventory levels.” American Electric Power Regulated Fuel Procurement Policy and Procedures May 2018.

6.2.3.2 Inventory control

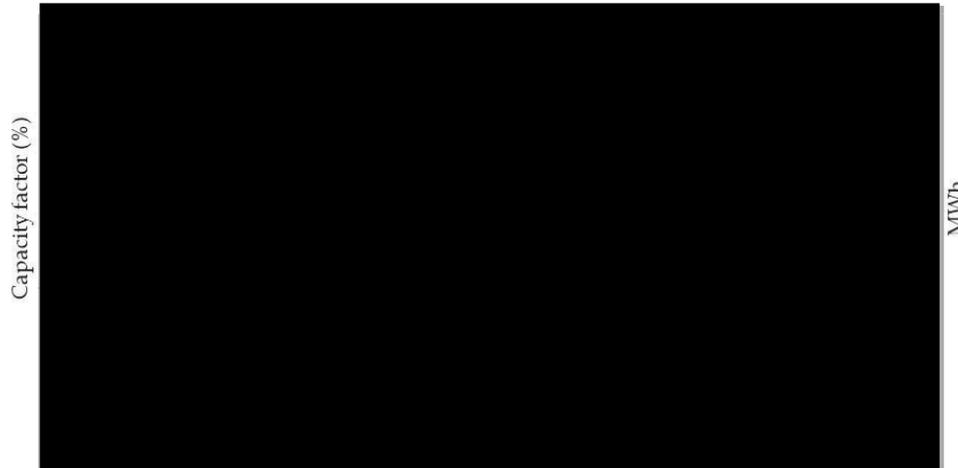
Coal inventory levels at Clifty Creek averaged about 66 days in 2020 (see Figure 39). The 2020 inventory levels remained significantly above OVEC’s recommended seasonal inventory of [REDACTED] days for the fall and winter seasons, and [REDACTED] for the spring and summer seasons.¹¹⁷ Inventory increased at Clifty Creek during the spring, when generation was low. The COVID-19 induced low prices and the low generation from the plant may have resulted in inaccurate forecasts of coal burns.

Figure 39. Clifty Creek coal inventory level



Source: LEI DR 02-019 - Attachment 1 - Confidential and LEI DR 02-011 - Attachment 1 - Confidential.

Figure 40. Clifty Creek generation and capacity factor

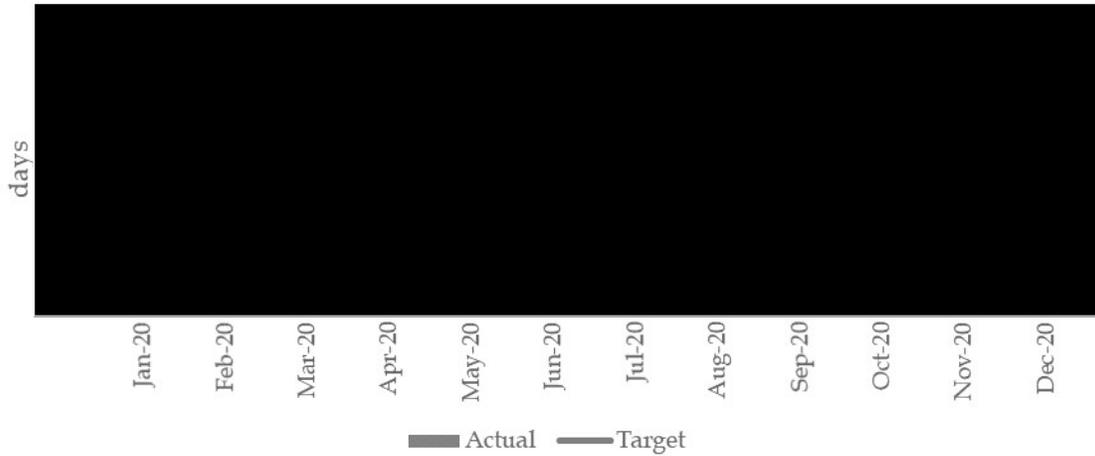


Source: LEI DR 05-005 - Attachment 2 - CONFIDENTIAL.

¹¹⁷ LEI DR 02-11 - Attachment 1 - CONFIDENTIAL: Coal Procurement Strategy: Procurement Targets, Inventory Targets and Supplier Diversity

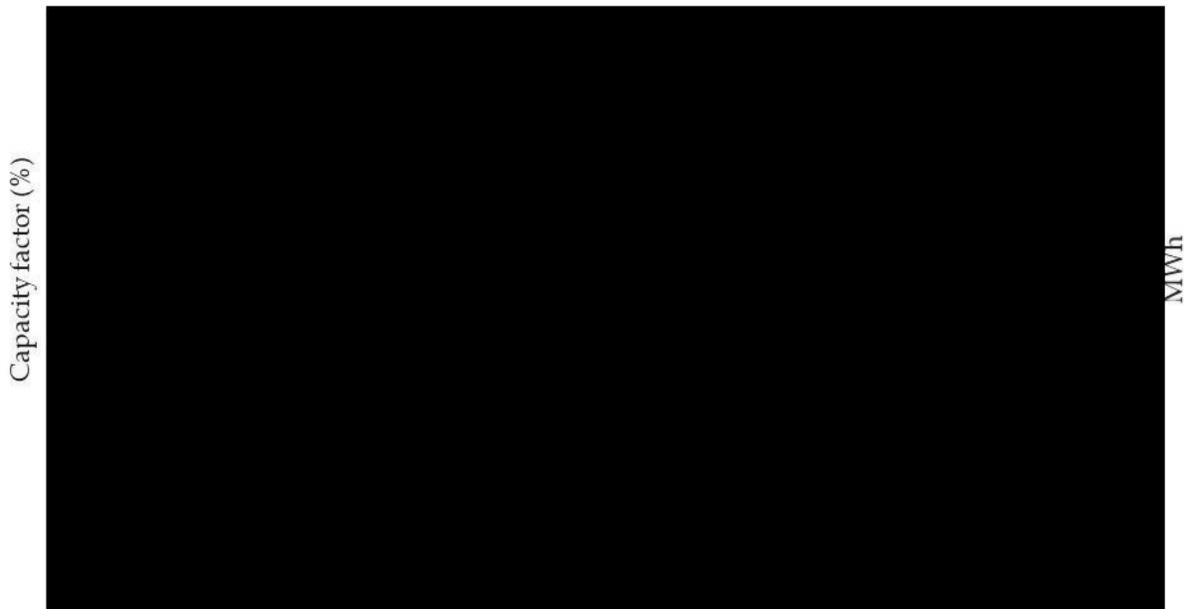
Kyger Creek’s inventory level averaged about 58 days in 2020 (see Figure 41). Inventory levels were significantly higher than OVEC’s recommended seasonal inventory of [REDACTED] for the fall and winter seasons, and [REDACTED] for the spring and summer seasons. Inventory also increased at Kyger Creek during the [REDACTED] with the lowest net generation and capacity factor (see Figure 42). Similarly to Clifty Creek, this may have resulted in a less accurate coal burn forecast, thus driving inventories significantly above the target in the following months.

Figure 41. Kyger Creek coal inventory level



Source: LEI DR 02-019 - Attachment 1 - Confidential and LEI DR 02-011 - Attachment 1 - Confidential.

Figure 42. Kyger Creek generation and capacity factor



Source: LEI DR 05-005 - Attachment 2 - CONFIDENTIAL.

6.2.4 Recommendations

At both power plants, coal inventory levels in 2020 were substantially higher than the inventory targets. LEI makes the following recommendations:

- To the extent current coal contracts might not feature flexibility for coal deliveries (i.e., requirements contracts), LEI recommends that AES Ohio, in its role on the Operating Committee encourage OVEC to consider requirements contracts in the future. This will help keep inventories from exceeding targets.
- AES Ohio, in its role on the Operating Committee, should encourage OVEC to procure slightly less through long-term contracts, and procure some coal through short-term contracts as needed. This will help keep inventories from exceeding targets.
- AES Ohio, in its role on the Operating Committee, should encourage OVEC to examine the process it uses to create coal burn outlooks, and its policy on taking deliveries of coal.

7 Environmental compliance

7.1 Scope and background

7.1.1 Scope

OVEC's environmental compliance activities are within the scope of this audit, as the Commission has specifically asked for this analysis.

This chapter addresses the following topics:

- overview of Ohio's air and solids regulations;
- organizational structure and qualifications of personnel;
- current status of OVEC's environmental controls;
- OVEC's emissions allowance management; and
- OVEC's preparation for compliance with proposed or newly enacted environmental regulations.

In coming to LEI's conclusions, LEI issued formal data requests, participated in an on-line virtual plant site visit with OVEC personnel, and conducted additional research.

7.1.2 Background on emissions regulation

7.1.2.1 Air regulations

On March 10, 2005, the United States Environmental Protection Agency ("EPA") issued the Clean Air Interstate Rule ("CAIR") that required significant reductions of SO₂ and NO_x emissions from coal-burning power plants. On March 15, 2005, the EPA also issued the Clean Air Mercury Rule ("CAMR") that required significant mercury emission reductions for coal-burning power plants. These emission reductions were required in two phases: 2009 and 2015 for NO_x; 2010 and 2015 for SO₂; and 2010 and 2018 for mercury. Ohio subsequently finalized its state-level versions of CAIR and CAMR. In response, the OVEC shareholders determined that it would be necessary to install flue gas desulfurization ("FGD") systems at both coal plants to comply with these rules.

After the promulgation of CAIR and CAMR, a series of legal challenges to those rules resulted in their replacement. CAMR was replaced with the Mercury and Air Toxics Standards ("MATS") rule which became effective on April 16, 2012. The OVEC plants were required to demonstrate compliance with MATS emission limits by April 16, 2015. On August 8, 2011, the EPA promulgated the Cross-State Air Pollution Rule ("CSAPR"). On May 1, 2017, the CSAPR Update ozone season NO_x program replaced the original CSAPR ozone season NO_x program. On March 15, 2021, the EPA finalized the Revised CSAPR Update that would reduce NO_x emissions from

power plants in the eastern United States, including Ohio by 17,000 tons.¹¹⁸ Figure 43 below illustrates the CSAPR footprint across the United States.

Figure 43. States covered by CSAPR



Source: EPA, Clean Air Markets.

7.1.2.2 Solids regulations

Solid emissions (fly ash, boiler slag, and FGD gypsum) from coal plants are regulated under EPA's Coal Combustion Residuals ("CCR") rule, which went into effect in October 2015. As noted in OVEC's 2020 annual report "[t]he US EPA elected to regulate CCR as a non-hazardous solid waste...The rule applies to new and existing CCR landfills and CCR surface impoundments...The rule is self-implementing and currently does not require state action."¹¹⁹

7.1.2.3 Water regulations

OVEC plants must comply with EPA's Effluent Limitations Guidelines ("ELG") limiting wastewater discharge (bottom ash transport wastewater and wastewater from the scrubbing process). EPA published the final ELG revisions in the Federal Register on October 13, 2020.¹²⁰ In

¹¹⁸ "Revised Cross-State Air Pollution Rule Update". EPA. Web. Accessed on November 01, 2021. <<https://www.epa.gov/csapr/revised-cross-state-air-pollution-rule-update>>

¹¹⁹ OVEC. *Annual Report 2020*. p. 33. <<https://www.ovec.com/FinancialStatements/AnnualReport-2020-Signed.pdf>>

¹²⁰ LEI-DR-04-008.

light of the rules, OVEC will have until December 31, 2025 to determine the technology it will use to comply with the rules, and to have it in place. This is discussed in detail in Section 7.3.3.

7.2 Evaluative criteria

LEI focused its audit of environmental compliance activities on answering the following questions:

1. Is the current environmental department's organization and staffing adequate?
2. Has OVEC appropriately responded to environmental regulations relevant to the plants? Has this impacted fuel procurement, in terms of type and cost of fuel purchased?
3. Has OVEC ensured a rigorous emission allowance management strategy for the coal plants? What methods does OVEC use to analyze environmental compliance options and strategies?
4. Has OVEC appropriately monitored, evaluated, and implemented the environmental compliance options?
5. What is the overall emission allowance management strategy, including any emission allowance transactions in which OVEC participated?

7.3 Findings and conclusions

7.3.1 Organization and staffing

The Environmental, Safety, and Health Department ("ESH") of OVEC-IKEC is responsible for managing and directing environmental compliance activities to make sure OVEC-IKEC is fully compliant with new and existing federal, state, and local environmental laws and regulations. The ESH Department also works closely with System Office management, plant management, personnel from the environmental service and engineering of Sponsor Companies, as well as their environmental departments to effectively carry out environmental compliance activities.¹²¹

The ESH Department consists of 13 staff (see Figure 44), and their duties and responsibilities include:¹²²

- *"Developing and administering programs and policies to ensure the Company is operating in full compliance with all applicable environmental regulatory requirements;"*
- *"Staying current with all new legal precedence and technology developments relating to environmental compliance with Company operations;" Staying current with all new legal*

¹²¹ LEI-DR-04-001.

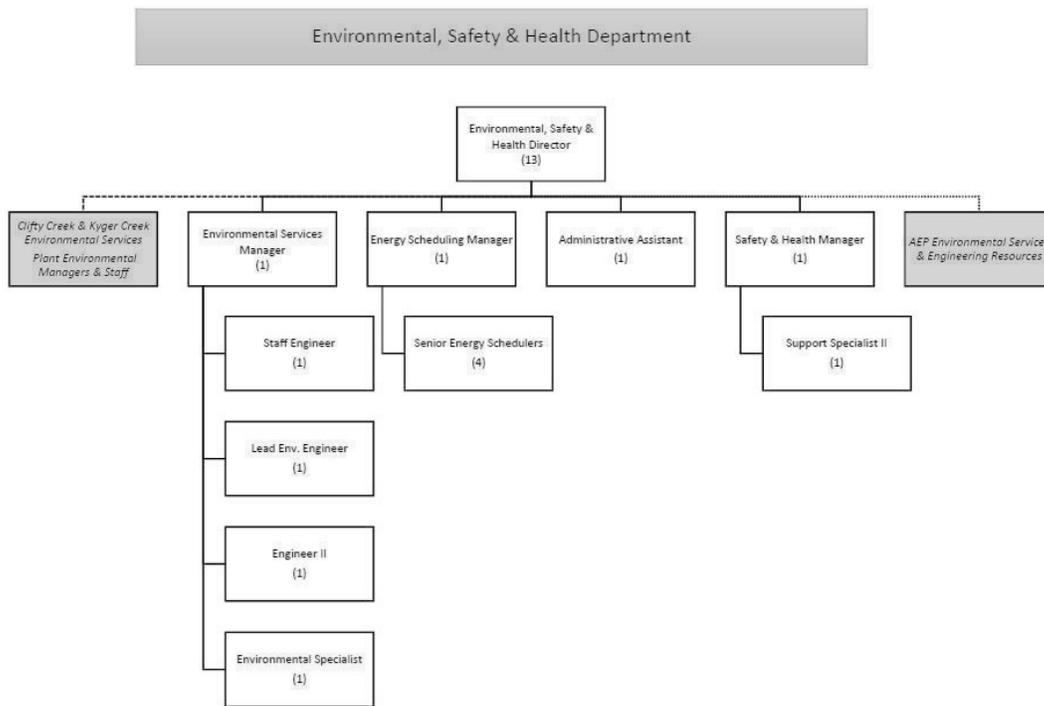
¹²² Ibid.

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precedence and technology developments relating to environmental compliance with Company operations;”

- “Securing and renewing all federal and state air, water, and solid waste permits required to meet applicable compliance obligations at all company facilities;” Securing and renewing all federal and state air, water, and solid waste permits required to meet applicable compliance obligations at all company facilities;”
- “Maintaining relationships with federal, state, and local environmental regulatory agencies for the purpose of obtaining guidance, required construction and operating permits and other necessary approvals in a timely manner, and for the purpose of resolving any compliance matters in the most efficient and amicable way possible;”
- “Working with outside legal counsel, consultants, and contractors for the purpose of resolving legal issues, conducting studies, and implementing projects to ensure the Company is operating in full compliance with all applicable regulatory requirements;” and
- “Managing emission allowance compliance activities for the Acid Rain Program, CSAPR, and CSAPR Update rules.”

Figure 44. OVEC-IKEC ESH Department Organization Chart



Source: LEI DR 01-008 – Attachment 1; LEI DR 04-001 – Attachment 1.

7.3.2 Current environmental control status of OVEC plants

Over the course of its operation, OVEC has installed and retrofitted a variety of equipment and systems in both Kyger Creek and Clifty Creek Power Plants to comply with environmental laws and regulations at the federal, state, and local levels. The current installed environmental controls and monitors for both plants are:¹²³

- **Overfire air system (“OFA”):** to meet the emission requirements for NO_x, overfire air systems were put in place in the 1990s at all 11 units, to meet the requirements of the Acid Rain Program as part of the 1990 Clean Air Act Amendments (“CAAA”). The overfire air system effectively reduces NO_x emissions by 50%. The OFAs for each plant will last the life of the plant, with ongoing maintenance; for example, the burners are inspected, repaired, and replaced on an ongoing basis.¹²⁴
- **Selective catalytic recovery (“SCR”) system:** SCR equipment was installed in 2002 and 2003 to meet additional NO_x reduction requirements applicable to the ozone seasonal cap and trade program under the US EPA’s NO_x State Implementation Plan Call Rule. SCRs convert NO_x in the furnace exhaust gas into N₂, H₂O and CO₂. Each unit in OVEC has its own SCR except for Clifty Creek Unit 6 which is not self-scheduled, but offered based on economics during summer ozone season (see Figure 45 and Figure 46). According to a 2011 Louisville Gas and Electric Company and Kentucky Public Service Commission long-term PPA, “[s]ince the current NO_x regulations allow “bubbling” of the emissions from both Clifty and Kyger and since OVEC chose to design the reactors for a NO_x removal efficiency of 90%, sufficient margin existed to allow one unit to remain uncontrolled.”¹²⁵ The SCR has the added benefit of converting trace amounts of mercury (H_g) in to a form which can be removed by scrubbers (discussed below).¹²⁶ However, SCRs also create SO₃, which cannot be removed by scrubbers (again, discussed below). To address this, the plants use dry sorbent injection equipment (which relies on injection of trona or hydrated lime) to capture the SO₃. The SCRs can last the life of the OVEC plant (until at least 2040) based on a maintenance regime and would not need new capital expenditure.¹²⁷

¹²³ LEI-DR-04-007; LEI DR 04-007 – Attachment 1; Oral presentation from OVEC staff during the virtual plant site visit on November 17, 2021.

¹²⁴ Oral presentation from OVEC staff during the virtual plant site visit on November 17, 2021.

¹²⁵ Kentucky Public Service Commission. "Emission Control System". Long-term Purchase Contract - Case No. 2011-00099. July 2011. p. 45. < https://psc.ky.gov/pscscf/2011%20cases/2011-00099/20110711_LGEs%20Response%20to%20Commission%20Staffs%20Supplemental%20Response%20Question%20No%201.pdf>

¹²⁶ Oral presentation from OVEC staff during the virtual plant site visit on November 17, 2021.

¹²⁷ Ibid.

- **Electrostatic precipitator:** In the 1970s, the electrostatic precipitators were installed at all 11 OVEC-IKEC units to comply with the 1970 Clean Air Act (“CAA”). They remove small particles of ash and SO₃, by using reduced velocity and an electric charge. The electrostatic precipitators collect over 90% of the fly ash produced in the combustion process. They are inspected and maintained during plant outages and no new capital is needed for them to last the life of the plant.¹²⁸ At Clifty Creek, the fly ash is disposed of in a dry state and can be sold for re-use or deposited on site. At Kyger Creek, the fly ash is currently mixed with water and the resulting slurry is deposited into a settling pond, but OVEC is in the process of converting to dry fly ash removal to meet EPA EFL guidelines (equipment is expected to be online in 2023).¹²⁹

- **Flue gas desulfurization (“FGD”) systems:** FGD systems were completed in 2012 for Kyger Creek and 2013 for Clifty Creek. FGD systems are designed to remove SO₂. At Clifty Creek and Kyger Creek, the equipment chose for the main scrubbing task is the jet bubbling reactor (“JBR”) design and proper operation brings co-benefits of lower particulate matter and lower mercury emissions, which help comply with EPA’s MATS rule without the need for additional pollution control equipment. JBR 12 at Kyger Creek scrubs flue gas from generation Units 1 and 2, and JBR 35 scrubs Units 3, 4, and 5. Clifty Creek’s JBR 13 scrubs Units 1, 2, and 3, and JBR 46 scrubs Units 4, 5, and 6.
 - **JBR:** The JBR performs the actual scrubbing and reduces SO₂ emissions by up to 98% at the plants; and

 - **Related equipment:** FGD systems at each plant included two JBRs, a new stack with two flues (one for each JBR), a FGD wastewater treatment plant (“WWTP”) to treat the residual wastewater created by the JBRs, new landfills, a limestone barge unloader, limestone preparation and storage equipment, gypsum dewatering, and a trona dry sorbent injection system for SO₃ mitigation.

- **Continuous emissions monitoring system (“CEMS”):** Primary and redundant backup monitoring systems were installed on each new flue when the scrubbers were placed into service. CEMS continuously monitors the CO₂, NO_x, SO₂, particulate matter (“PM”) 10 and PM 2.5, mercury, and flue gas volumetric flowrates. CEMS output is processed through a data acquisition system to enable OVEC to provide quarterly emissions data to US EPA and other federal or state environmental organizations to demonstrate compliance. The NO_x, CO₂, and SO₂ flow monitors were installed to meet EPA reporting requirements. Mercury and PM monitoring systems were installed for MATS compliance. OVEC staff manage air pollution control in real time to make sure the emissions do not exceed the US EPA limit. The plants are in the process of replacing/updating the CEMS monitors.

¹²⁸ Ibid.

¹²⁹ Ibid.

Figure 45. Clifty Creek air pollution control process

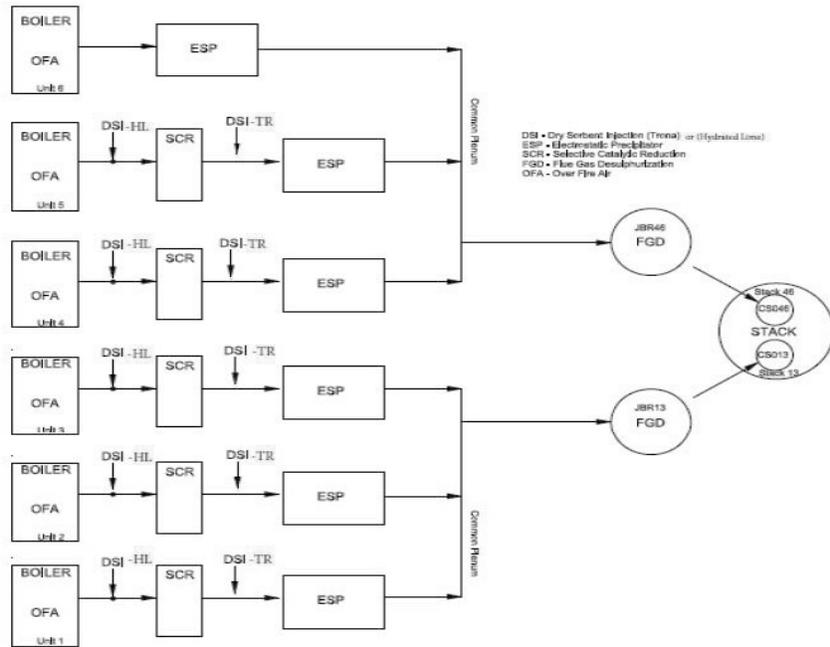
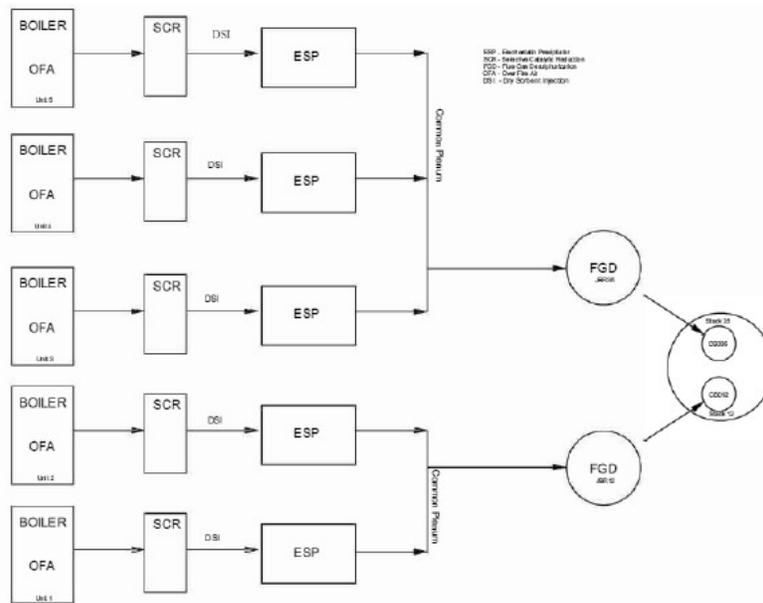


Figure 46. Kyger Creek air pollution control process



Source: LEI DR 04-007 - Attachment 1; Oral presentation from OVEC staff during the virtual plant site visit on November 17, 2021.

As noted above, OVEC reported that through proper maintenance the pollution control equipment it can last for many decades.¹³⁰ Figure 47 lists the major equipment at Kyger Creek and Clifty Creek facilities installed since the late 1970s to comply with environmental regulations.

Figure 47. Kyger Creek and Clifty Creek environmental compliance equipment

| Project | Purpose | Installation Date(s) |
|--|--|----------------------|
| Clifty Creek and Kyger Creek Plant – Electrostatic Precipitator (ESP) installation on all units | To meet Clean Air Act requirements for the removal of fly ash/particulate matter from the flue gas | 1977-1980 |
| Clifty Creek and Kyger Creek Plants (all units) – boiler overfire air modifications | To meet Clean Air Act Amendment (Acid Rain Program) requirements for NOx emissions | 1995-1999 |
| Clifty Creek and Kyger Creek Plants (10 of 11 units) - installed selective catalytic reduction equipment | To comply with ozone season only NOx requirements following additional US EPA NOx SIP call rulemaking | 2002-2003 |
| Clifty Creek and Kyger Creek Installation of JBR Scrubbers | Compliance with CSAPR requirements for additional SO2 emission reductions, and gain co-benefit of Hg removal for compliance with the MATS rule | 2011-2013 |

Source: LEI DR 04-010 – Attachment 1.

7.3.3 OVEC’s environmental compliance

7.3.3.1 OVEC’s compliance with air, water, and solids regulations

With the adoption of EPA’s CSAPR Update Rule, in 2019, OVEC managed its operations to comply with the more stringent NO_x constraints effective during the ozone season. The final rule revising the CSAPR Update was signed on March 15, 2021 and OVEC does not expect it to impact the near-term compliance strategy or materially change future operations.¹³¹

OVEC has been using the Effluent Limitations Guidelines (“ELG”) draft rules published in November 2019 as the basis for planning its compliance with rules limiting wastewater discharge (bottom ash transport wastewater and FGD wastewater). EPA published the final ELG revisions in the Federal Register on October 13, 2020.¹³² In light of the rules, OVEC will have until December 31, 2025, to modify how it manages both bottom ash transport wastewater and FGD wastewater. OVEC has engaged a third-party engineering firm to assist in developing an overall holistic compliance strategy based on terms of the final ELG rules, and other applicable federal and state regulations that may impact timelines for modifying treatment systems to meet new ELG requirements at both plants. The dry fly ash project for Kyger Creek discussed previously is under

¹³⁰ Oral presentation from OVEC staff during the virtual plant site visit on November 17, 2021.

¹³¹ OVEC. *Annual Report 2020*. P. 32. <<https://www.ovec.com/FinancialStatements/AnnualReport-2020-Signed.pdf>>

¹³² LEI-DR-04-008.

construction and set to be completed in 2023, to comply with ELG rules. Both plants are now undergoing other modifications to comply with the rules.¹³³

To comply with EPA Clean Water Act Section 316 (b) for cooling water intake structures, both Kyger Creek and Clifty Creek are participating in an Electric Power Research Institute (“EPRI”) collaboration project. OVEC was obligated to conduct a two-year study of EPA Clean Water Act Section 316 (b) requirements and associated control technology recommendations, which they completed, and submitted to the Ohio state regulatory agency in 2018.¹³⁴ The report included a summary of the preliminary cost estimates for the technologies evaluated, conclusions and other information required under Section 122.21(r) of the 316(b) Rule. OVEC still expects to prepare a comprehensive and detailed cost estimate following consultation with Indiana Department of Environmental Management (“IDEM”) and Ohio EPA following their site-specific determination of what constitutes Best Available Technology (“BAT”) for each plant, consistent with Section 125.98(f) of the 316(b) Rule. That determination needs to be made before OVEC takes the next step in developing detailed costs and finalizing schedules, and neither state regulatory agency did so in 2020.

IDEM has stated they will be conducting their evaluation as part of the next National Pollution Discharge Elimination System (“NPDES”) permit renewal for the Clifty Creek Station. The current permit is effective through May 1, 2022, and OVEC expects IDEM’s evaluation to address the Station’s future 316(b) obligations to take place in late 2021 or early 2022. Ohio EPA is expected to make a similar determination for Kyger Creek Station in either late 2021 or early 2022 as well.¹³⁵

To comply with EPA CCR, OVEC noted in its most recent annual report that all compliance is complete: *“The Companies have completed all compliance obligations associated with the rule to date.... currently, approximately 65 percent of the coal ash and other residual products from our generating facilities are reused in the production of cement and wallboard, as soil amendments, as abrasives of road treatment materials, and for other beneficial uses.”*¹³⁶

7.3.3.2 OVEC’s byproducts from environmental compliance activities

During the FGD process, air is needed to support the reaction of the SO₂ in the gas with the limestone slurry. This creates spent slurry, as known as gypsum. The absorber removes the dewatered gypsum which becomes a useful byproduct and source of revenue for OVEC.

As of 2018, Kyger Creek has a long term contractual relationship with one wallboard manufacturer, and Clifty Creek is also nearing completion of a long term contract with another

¹³³ Ibid, and virtual site visit November 17, 2021.

¹³⁴ OVEC. Annual Report 2017. P. 29. <<https://www.ovec.com/FinancialStatements/2017-ConsolidatedFinancials.pdf>>

¹³⁵ LEI-DR-04-009.

¹³⁶ OVEC. Annual Report 2020. P. 34. <<https://www.ovec.com/FinancialStatements/AnnualReport-2020-Signed.pdf>>

wallboard manufacturer.¹³⁷ As of 2019, OVEC sold nearly all of the gypsum produced at each plant into the wallboard market.¹³⁸ For both plants, OVEC evaluated options for installing barge loading facilities on-site which could provide additional support for fly ash and boiler slag marketing.¹³⁹ The revenues from the sales of gypsum are used to offset the fuel and reagent costs incurred by OVEC.

Another byproduct is bottom ash, removed from the bottom of the boilers. After further cleaning, the ash can be used for grid blasting and becomes sellable. Clifty Creek has successfully marketed some of its fly ash, and OVEC expects a growing trend in that market. Kyger Creek is considering a marketing agreement for its dry fly ash in 2023 and beyond after the completion of the dry flash ash conversion project at the facility.¹⁴⁰ The revenue from the ash sales is expected to reduce total fuel and reagent costs. Modifications of the wastewater treatment systems began in 2021 as noted above.^{141, 142}

7.3.3.3 OVEC's compliance strategy

OVEC's overall compliance strategy involves installing equipment and maintaining a bank of emissions allowances. The OVEC 2020 annual report noted that *"As a result of the installation and effective operation of the FGD and SCR systems at each plant, management did not need to purchase additional annual SO₂ allowances, annual NO_x allowances, or ozone season allowances in 2020 to cover actual emissions. The Companies [OVEC and IKEC] also maintain a bank of allowances for all three programs as a hedge to cover future emissions in the event of any short-term operating events or other external factors. Depending on a variety of operational and economic factors, management may elect to consume a portion of these banked allowances and/or strategically purchase additional CSAPR annual and ozone season allowances in 2021 and beyond for compliance with the CSAPR and CSAPR Update rules."*¹⁴³

7.3.4 Emissions allowances and trading

7.3.4.1 OVEC's designated staff

The Environmental Safety & Health Director is the Designated Representative (or Authorized Account Representative ("AAR")) at OVEC and is responsible for overall emissions allowance inventory management and associated compliance activities, which include the allowance bank management and surrender of allowances via US EPA's Clean Air Markets Division ("CAMD")

¹³⁷ OVEC. *Annual Report 2018*. P. 3. <<https://www.ovec.com/FinancialStatements/AnnualReport-2018-Signed.pdf>>

¹³⁸ OVEC. *Annual Report 2019*. p. 4. <<http://www.ovec.com/FinancialStatements/AnnualReport-2019-Signed.pdf>>

¹³⁹ Ibid.

¹⁴⁰ OVEC. *Annual Report 2020*. p. 31 <<https://www.ovec.com/FinancialStatements/2020-ConsolidatedFinancials.pdf>>

¹⁴¹ LEI-DR-04-008.

¹⁴² Oral presentation from OVEC staff during the virtual plant site visit on November 17, 2021.

¹⁴³ Ibid.

Business System website.¹⁴⁴ Further, the AAR has an Alternate Authorized Account Representative (“AAAR”), who is the Environmental Services Manager based at OVEC’s corporate office in Piketon, Ohio, serves as a backup to fulfill purchasing, banking, inventory management, and annual allowance surrender responsibilities.

7.3.4.2 OVEC’s purchasing strategy for emissions allowances

OVEC’s strategy is to “operate in a manner to comply with applicable environmental requirements under both the state and federal implementation plans applicable to NO_x and SO₂ emissions from the electric utility sector.”¹⁴⁵ OVEC is required to manage emissions allowances under three regulatory programs: (1) CSAPR; (2) CSAPR Update Rule; and (3) Acid Rain Program. During the audit period, OVEC confirmed that they did not make any emissions allowances purchases in the secondary market and the only allowances received were those allowances allocated to each of the units by EPA under the three regulatory programs.¹⁴⁶

OVEC did not purchase SO₂ allowances during the audit period and does not expect to purchase SO₂ allowances in the near future, because of the high efficiency of JBR scrubbers. Under the federal Acid Rain or CSAPR regulations, OVEC surrendered the allowances allocated to the units under those respective compliance programs.¹⁴⁷

As for NO_x emissions control, OVEC’s overall strategy is to “operate in a manner to limit or avoid the need to purchase annual or seasonal NO_x allowances in the secondary market.”¹⁴⁸ Generally, OVEC has very limited need to purchase additional allowances due to the stringent environmental compliance obligations and high efficiency of plants’ pollution control equipment. During the audit period, OVEC confirmed that neither seasonal nor annual NO_x allowances were purchased.¹⁴⁹

7.3.4.3 OVEC’s purchase of emissions allowances

As mentioned above, OVEC did not make any allowance purchases during the audit period. In the past, OVEC’s purchasing process for emissions allowances was mainly through the trading services of one of its Sponsors (usually AES Ohio) to make sure the purchase is made based on fair market prices and reasonable brokerage fees at the time of the purchase.¹⁵⁰ For each allowance

¹⁴⁴ LEI-DR-04-002.

¹⁴⁵ Ibid.

¹⁴⁶ LEI-DR-04-002; LEI-DR-04-003.

¹⁴⁷ LEI-DR-04-002.

¹⁴⁸ Ibid.

¹⁴⁹ Ibid.

¹⁵⁰ LEI-DR-04-003.

purchase, there was a purchase agreement between OVEC and the seller. OVEC conducted an internal legal review of the agreement terms that define the type, number, vintage, and total prices of allowances of each purchase. The ESH Director or AAR is responsible for managing the emissions allowances purchase to meet OVEC's needs.¹⁵¹

7.3.4.4 OVEC's banking strategy and management of emissions allowance inventories

OVEC's AAR and AAAR have the primary responsibility for fulfilling emission allowance management and associated compliance obligations, including banking and inventory management.¹⁵² The general strategy for banking and inventory management is that allowances surrenders are made on a last-in, first-out basis to minimize the costs incurred and billed to sponsors.¹⁵³

For allowances purchased by OVEC, they are valued on a weighted average basis and sponsoring companies are billed for them based on the actual monthly emissions reported by Kyger Creek and Clifty Creek.¹⁵⁴ However, allowances which are allocated to the plants are accounted for differently: *"Allowances directly allocated to the plants by EPA are not assigned a cost and sponsors are not billed when such allowances are surrendered."*¹⁵⁵

OVEC has not purchased any allowances on the secondary market since complying with the CSAPR and Acid Rain programs.¹⁵⁶

Figure 48 below shows a summary of the 2020 allowance bank totals, the weighted average cost of allowances that still have a value from prior year purchases, the number of allowances surrendered in 2020, the 2020 balance, and additional 2021 vintage allowances EPA has allocated to the units for 2020.

¹⁵¹ Ibid.

¹⁵² LEI-DR-04-005.

¹⁵³ Ibid.

¹⁵⁴ LEI-DR-04-006.

¹⁵⁵ Ibid.

¹⁵⁶ Oral presentation from OVEC staff during the virtual plant site visit on November 17, 2021.

Figure 48. OVEC emissions allowance account balance as of 2020

| OVEC-IKEC CAMD Plant Emissions Allowance Account Balance Information - Year ending 2020. | | | | | | | |
|--|-------|--|---|---|---|--|--|
| All allowances listed in the table below are 2020 vintage or earlier unless otherwise noted. | | | | | | | |
| EPA Program | Plant | Plant Emissions allowance bank (tons) available for 2020 allowance surrender (CAMD data) | Weighted Average Cost of allowances held in Inventory | 2020 Total tons of emissions (and corresponding number of Allowances surrendered to US EPA) | 2020 Year-end balance, after 2020 allowance surrender | 2021 EPA provided allowance allocations (tons) | Total Available 2021 or earlier vintage allowances available to cover 2021 emissions |
| Acid Rain ¹ Program (SO ₂) | | | | | | | |
| CSAPR Annual NO _x ² | | | | | | | |
| CSAPR Annual SO ₂ ³ | | | | | | | |
| CSAPR Ozone Season NO _x ⁴ | | | | | | | |

Notes:

Source: LEI DR 04-011 - Attachment 1 - Confidential.

LEI notes that, a [REDACTED] ton, the 2020 year-end inventory of ozone season NO_x allowances for 2020 was worth [REDACTED]¹⁵⁷ This is the most expensive inventory of allowances – SO₂ and annual ozone inventory values are much lower, because the prices of allowances are lower. Since the EPA is providing about the same number of ozone season NO_x allowances annually, the ozone season inventory level for 2020 is probably higher than needed. Though it may be overly conservative, LEI believes the inventory management for seasonal NO_x allowances is reasonable. Management of other emissions inventories was reasonable and represent low costs to customers.

7.3.5 Evaluating, and implementing compliance options

OVEC’s strategy for evaluating options for compliance and implementing these options is based on what is required to meet state and federal regulations.¹⁵⁸ The capital budget for environmental

¹⁵⁷ NO_x allowances for [REDACTED] = 2021 EPA provided allowance allocation or [REDACTED] tons multiplied by weighted average cost of allowances held in inventory or [REDACTED]

¹⁵⁸ Oral presentation from OVEC staff during the virtual plant site visit on November 17, 2021.

compliance is approved by the OVEC Board of Directors. As discussed in Section 8, there is no cap on annual capital expenditures.

7.4 Recommendations

Based on the virtual plant site visit and data request responses from AES Ohio, LEI concludes that OVEC's environmental equipment configuration is consistent with the industry standard, and therefore, OVEC is well positioned to comply with environmental rules and regulations at federal and state levels. LEI found that OVEC has an effective management of emissions allowances given the dynamics in the market, regulatory changes, and efficiency of emission control system.

8 Capital expenses

8.1 Scope and background

8.1.1 Scope

Capital expenses incurred by OVEC are allocated and billed to AES Ohio through the demand charge on the OVEC bill. In turn, these are billed to AES Ohio customers in the LGR Rider and are therefore within the scope of the audit.

This chapter addresses the following topics:

- decision and budgeting procedures for capital expenses;
- budgeted and actual capital projects over the audit period; and
- prudence of project planning and management.

In coming to LEI's conclusions, LEI issued formal data requests and reviewed detailed project documents.

8.1.2 Background

LEI reviewed the capital project approval process as well as the budgeted and actual costs of capital projects during the audit period, to determine whether these projects were planned and managed prudently.

8.2 Evaluative criteria

LEI focused its audit on answering the following questions:

1. Were capital projects planned based on a prudent approval process?
2. Were capital projects well managed and completed within budget?

8.3 Findings and conclusions

8.3.1 Overview

According to OVEC's 2020 annual report "*[a]ll property additions and replacements are fully depreciated on the date the property is placed in service, unless the addition or replacement relates to a financed project. As the Companies' policy is to bill in accordance with the debt service schedule under the debt agreements, all financed projects are being depreciated in amounts equal to the principal payments on outstanding debt.*"¹⁵⁹

¹⁵⁹ OVEC. *Annual Report 2020*. p. 17. <<https://www.ovec.com/FinancialStatements/AnnualReport-2020-Signed.pdf>>

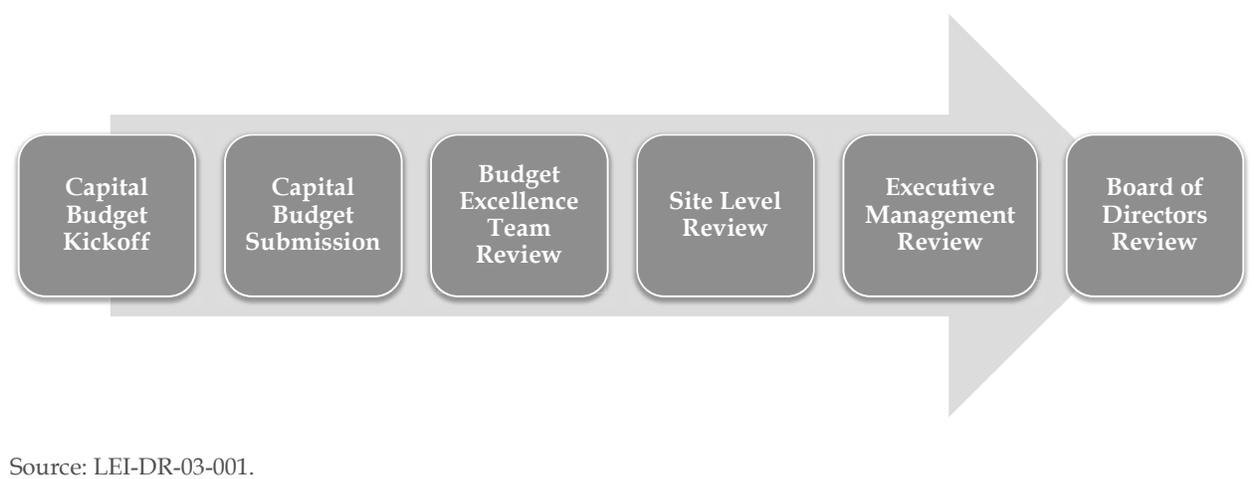
Capital expenses are billed to the Sponsoring Companies in the OVEC demand charge. The demand charge includes Component A which captures the cost of debt, depreciation, and amortization; and Component B which covers non-fuel expenses for the plants.¹⁶⁰

Total capital spending in OVEC was \$8.55 million.¹⁶¹ This annual amount is far lower than the 2020 total of Component A (\$180.4 million) and Component B (\$143.3 million) in the OVEC bill. The OVEC bill includes charges from capital spending in previous years.

8.3.2 Capital budget process at OVEC

At OVEC, any proposed capital project over \$100,000 goes through a six-step process before receiving approval (see Figure 49 below).

Figure 49. The six-step capital budget process at OVEC



The six steps involve the following activities and teams:

- 1) At the **Capital Budget Kickoff**, requirements covering capital justifications and the planned timeline are reviewed;
- 2) In the **Capital Budget Submission** phase, Project Leads (typically asset owners or process leads) submit capital projections request and justifications to the Budget Excellence Team;
- 3) The **Budget Excellence Team Review** is led by a group of individuals with multidisciplinary backgrounds and from various locations and departments. The team reviews the quality of the project's justifications and alternatives;

¹⁶⁰ LEI DR 02-009 - Attachment 1.

¹⁶¹ LEI DR 03-002 - Attachment 1 - Confidential.

CONTAINS CONFIDENTIAL INFORMATION

- 4) The **Site Level Review** is led by a group consisting of the Plant Manager and plant Department Heads, who prioritize projects for their location and provide feedback regarding the projects and associated justifications;
- 5) The **Executive Management Review** is led by a team made up of the Chief Operation Officer (“COO”), Chief Financial Officer (“CFO”), Kyger Creek Plant Manager, Clifty Creek Plant Manager, Environmental, Safety & Health Director, and Electrical Operations Director. The team reviews the projects and then prioritizes them based on safety, environmental compliance, expected return, reliability risk, and capital budget targets; and
- 6) The **Board of Directors** (“BOD”) reviews and approves capital budgets at the annual BOD meeting.

LEI believes that this capital project budget approval process provides a good foundation for capital project planning and implementing. However, it should specify more clearly the personnel in charge of each step. For example, at the Capital Budget Kickoff step, who is responsible for proposing a capital project and who reviews the proposal? In addition, OVEC should make transparent the standardized criteria (such as net present value, payback period, and/or comparison to alternatives), for evaluating and approving the proposed capital projects at each step.

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 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.

8.3.4 Capital projects were generally completed within budget

LEI reviewed the budgeted and actual costs of OVEC’s capital projects in 2020. LEI found that the capital projects were generally completed within or close to the budget, and that the total actual costs did not exceed the total budgeted costs in 2020 for major projects (see Figure 50 below). One fairly minor project, replacing core switches and router at Clifty Creek, exceeded the budget by a substantial margin.

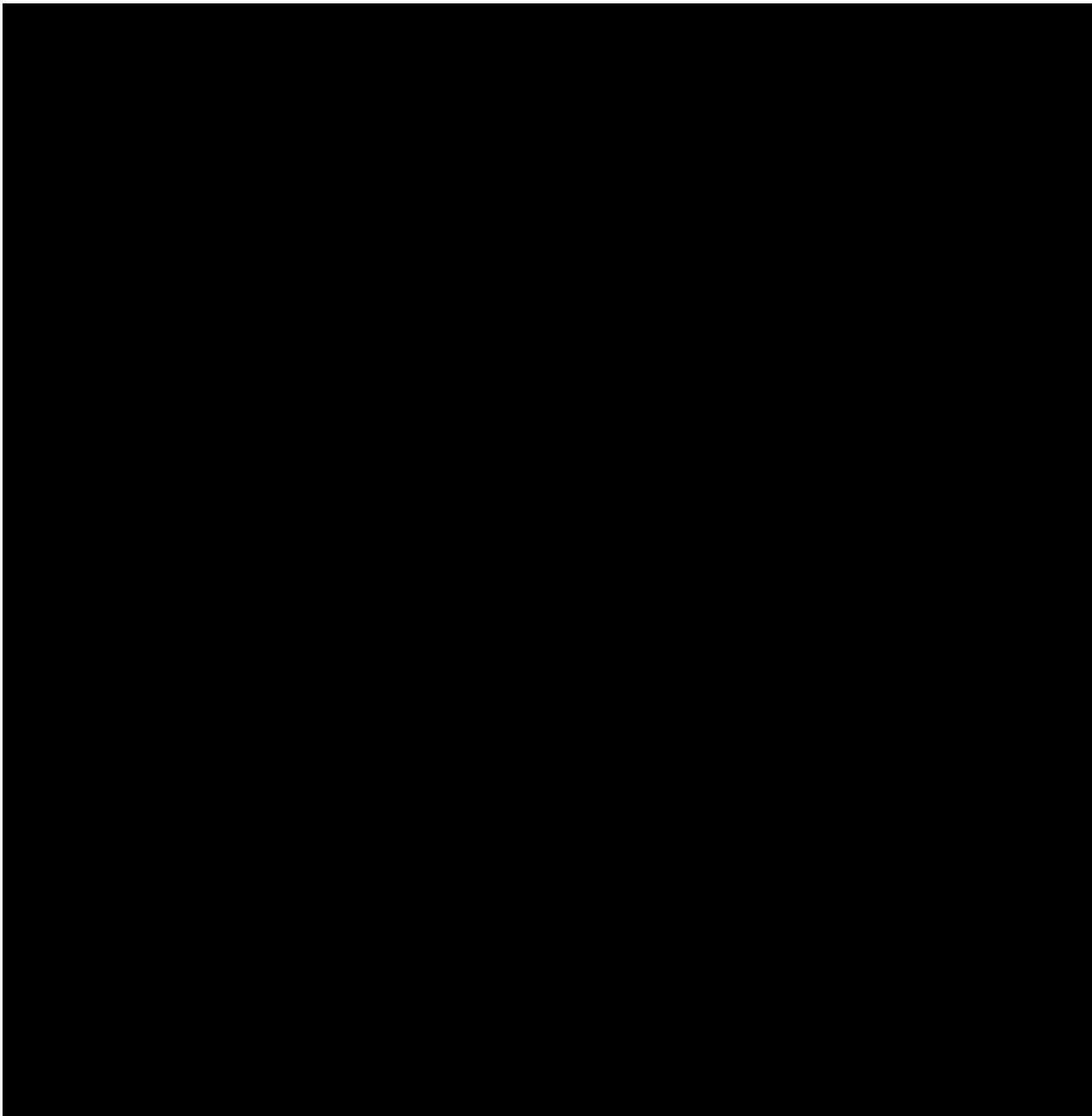
Figure 50. Budgeted and actual costs of all OVEC capital projects, 2020

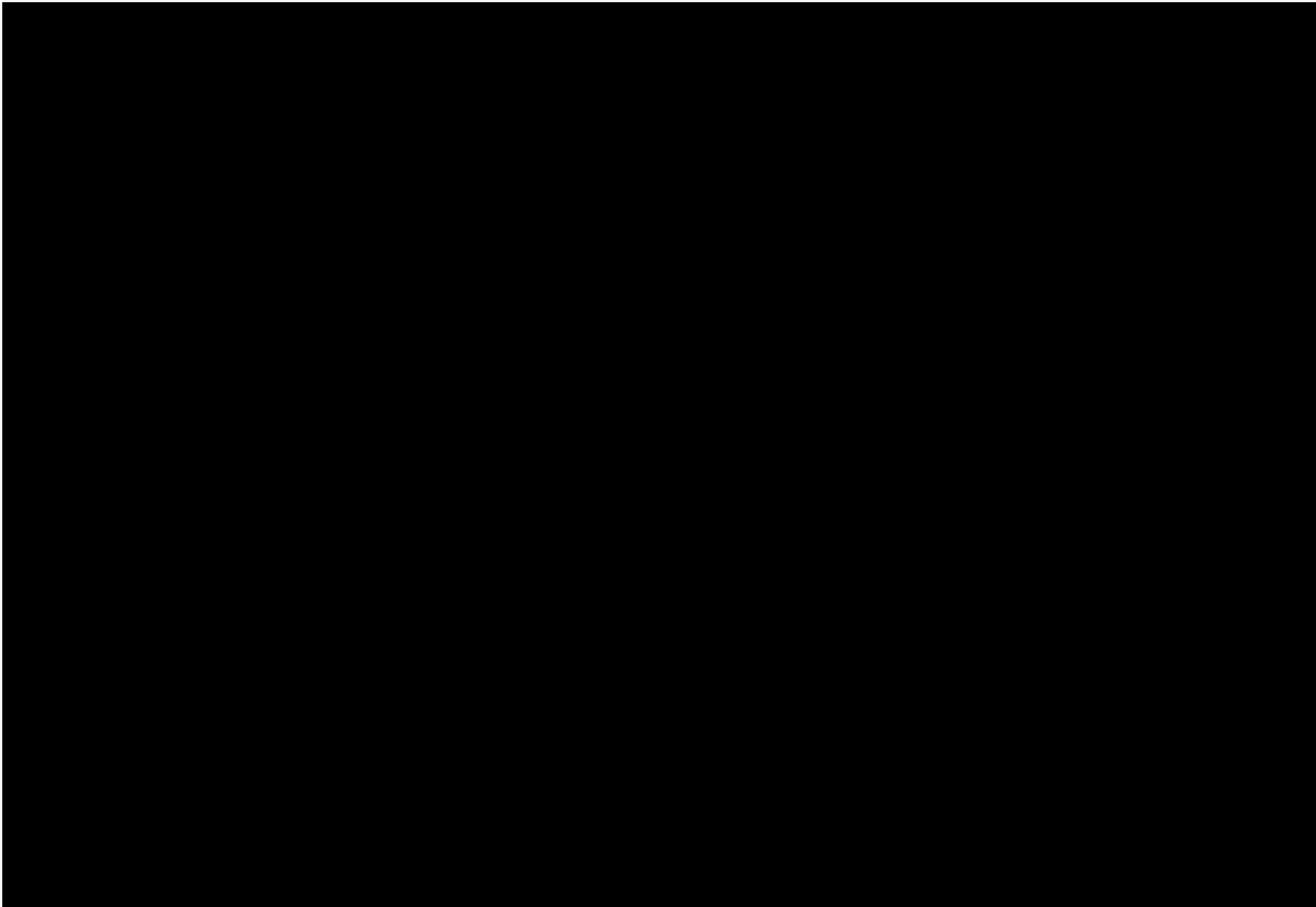
| Plan Year | Location | Project | Budgeted Amount | Actual Capital Spending (cost) | Description | Billed to AES (4.9%) | Over Budget? |
|--------------------------|----------|---------|-----------------|--------------------------------|-------------|----------------------|--------------|
| [Redacted Table Content] | | | | | | | |

Source: LEI DR 03-002 - Attachment 1 - Confidential.

8.3.5 Capital projects are typically for environmental and economic purposes with a payback period of around four years

LEI reviewed all [Redacted] projects that had budgeted amounts greater than \$500,000 and examined OVEC’s project planning materials (provided in LEI DR 03-002 - Attachment 2 - Confidential) to check the prudence of capital spending. The planning materials included detailed information such as project description, cost and benefit analysis and alternatives considered (see Figure 51 below). OVEC states that projects were focused on to delivering economic benefits and environmental compliance, went through a cost-benefit analysis (with an average simple payback timeline of around 3.3 years), and OVEC compared them to alternatives in terms of practicality and cost.





8.4 Recommendations

In general, capital projects at OVEC were completed within budget and followed a prudent evaluation process. The capital investment appears to have addressed environmental issues or improved plant economics.

However, this does not imply that the level of capital spending is justified by the revenues earned by the plants in the PJM market. Recent annual capital expenditures of about \$8 million to \$9 million represent a small portion of the demand charge paid by AES Ohio and other Sponsoring Companies; the overall cost to recover the investment in the plants (recovered in Component A and Component B of the demand charge) is much larger, as noted above.

9 Power plant operations

9.1 Scope and background

9.1.1 Scope

OVEC’s plant operation and maintenance activities impact the ultimate cost of power to OVEC consumers and are thus within the scope of this audit.

This chapter addresses the following topics:

- organizational structure and qualifications of personnel;
- power plant operation and maintenance;
- power plant performance tracking; and
- emergency procedures.

In coming to LEI’s conclusions, LEI issued formal data requests, communicated with management, and conducted additional research.

9.1.2 Background

Clifty Creek includes six coal-fired generating units and Kyger Creek includes five coal-fired generating units (see Figure 52). The units are all relatively old (operating since 1955 or 1956) and small, with nameplate capacity of 217.3 MW each, while new coal steam turbines tend to be about 500 MW.

Figure 52. OVEC-owned generating units, 2020

| Plant | Unit No. | Location | Technology | Initial Operation | Fuel | Nameplate Capacity | Max Avail Capacity |
|--------------|----------|----------------------|---------------|-------------------|------|--------------------|--------------------|
| Clifty Creek | 1 | Jefferson County, IN | Steam Turbine | 1955 | Coal | 217.3 | 200 |
| Clifty Creek | 2 | Jefferson County, IN | Steam Turbine | 1955 | Coal | 217.3 | 200 |
| Clifty Creek | 3 | Jefferson County, IN | Steam Turbine | 1955 | Coal | 217.3 | 200 |
| Clifty Creek | 4 | Jefferson County, IN | Steam Turbine | 1955 | Coal | 217.3 | 200 |
| Clifty Creek | 5 | Jefferson County, IN | Steam Turbine | 1955 | Coal | 217.3 | 200 |
| Clifty Creek | 6 | Jefferson County, IN | Steam Turbine | 1956 | Coal | 217.3 | 200 |
| <i>Total</i> | | | | | | 1303.8 | - |
| Kyger Creek | 1 | Gallia County, OH | Steam Turbine | 1955 | Coal | 217.3 | 199 |
| Kyger Creek | 2 | Gallia County, OH | Steam Turbine | 1955 | Coal | 217.3 | 199 |
| Kyger Creek | 3 | Gallia County, OH | Steam Turbine | 1955 | Coal | 217.3 | 199 |
| Kyger Creek | 4 | Gallia County, OH | Steam Turbine | 1955 | Coal | 217.3 | 199 |
| Kyger Creek | 5 | Gallia County, OH | Steam Turbine | 1955 | Coal | 217.3 | 199 |
| <i>Total</i> | | | | | | 1086.5 | - |

Source: S&P Global Market Intelligence; OVEC Website <<https://www.ovec.com/Clifty.php>>; <<https://www.ovec.com/Kyger.php>>

9.2 Evaluative criteria

LEI focused its audit of plant operations on answering the following questions:

1. Is staffing adequate in terms of numbers of employees and staff experience, training, oversight, performance incentives, and succession planning?
2. Do OVEC's plants perform at levels comparable to industry expectations?
3. How and on what criteria is plant performance benchmarked by OVEC? How does it compare to industry standards, best practices, or expectations?
4. How does OVEC plan and execute its maintenance activities?
5. What emergency procedures are in place to deal with extreme weather or flooding? How did plant managers respond to the impacts of COVID-19 in 2020?

9.3 Findings and conclusions

9.3.1 Organization and staffing are reasonable at Kyger Creek and Clifty Creek

LEI examined the staffing of the OVEC and IKEC plant management teams. There are 213 staff members working at Kyger Creek and 241 at Clifty Creek (see Figure 53).¹⁶² The number of employees is comparable to the average for coal plants in PJM, which is 238.¹⁶³

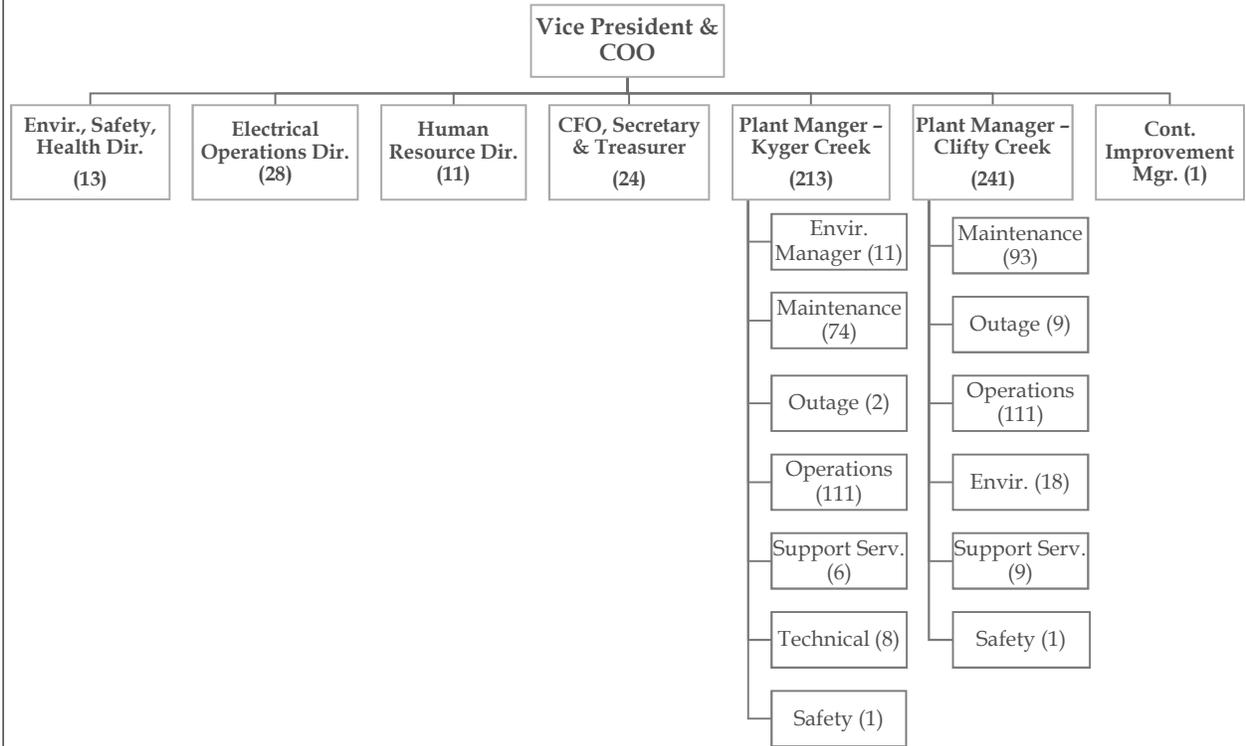
The total number of staff at both plants declined from 2019 to 2020. AES reported that the differences in staffing levels between 2019 and 2020 at both plants were primarily driven by attrition due to employee retirements. When that takes place, each plant evaluates those vacancies and takes a disciplined approach to determine whether those positions can be consolidated, contracted to a third-party strategic partner more effectively, and/or if that position needs to be filled with an external hire. In general, as operations positions become vacant, the plants have been hiring replacement employees to backfill those vacant positions. Other positions from all other departments that become vacant are generally being either consolidated or are being subcontracted out to strategic partners where warranted.¹⁶⁴

¹⁶² LEI - DR - 05-001 - Attachment 1; LEI - DR - 05-001 - Attachment 2.

¹⁶³ S&P Global Market Intelligence.

¹⁶⁴ LEI- DR- 05-011.

Figure 53. OVEC - IKEC plant management staffing, 2020



Source: LEI - DR - 05-001 - Attachment 1; LEI - DR - 05-001 - Attachment 2.

Note: Actual totals of plant management staff are shown for Kyger Creek (213) and Clifty Creek (241).

LEI examined the operations and maintenance (“O&M”) costs (labor plus non-labor) for the two plants. As shown in Figure 54, for the period of 2018-2020, the Clifty Creek and Kyger Creek plants cost an average of \$38.35 million (or \$29.42/kW-year) and \$33.7 million per year (or \$31.04/kW-year) for O&M, respectively. Around 23% to 27% of the total O&M cost at Clifty Creek and Kyger Creek is reported to have been spent on labor. This share is on the lower end of industry average based on LEI’s empirical knowledge but is not unreasonable given the considerable amount of spending on materials that might be required in the event of planned or unplanned outages.

Figure 54. OVEC – Labor and non-labor O&M costs for Clifty Creek and Kyger Creek, 2018-2020

| Plant - Year | Name Plate Capacity (MW) | Total Labor O&M Cost (\$) | Share of Labor cost to Total O&M Cost | Total Non-labor O&M Cost (\$) | Share of Non-Labor cost to Total O&M Cost | Total O&M Cost (\$) | O&M cost \$/kW-year |
|---------------------------------------|--------------------------|---------------------------|---------------------------------------|-------------------------------|---|----------------------|---------------------|
| Clifty Creek - 2018 (Comparison year) | 1303.6 | \$ 11,044,113 | 27.8% | \$ 28,748,034 | 72.2% | \$ 39,792,147 | \$ 30.52 |
| Clifty Creek - 2019 (Comparison year) | 1303.6 | \$ 10,741,216 | 27.0% | \$ 28,971,861 | 73.0% | \$ 39,713,077 | \$ 30.46 |
| Clifty Creek - 2020 (Audit year) | 1303.6 | \$ 9,108,282 | 25.6% | \$ 23,167,352 | 65.2% | \$ 35,542,005 | \$ 27.26 |
| Clifty Creek - 3-yr Avg | 1303.6 | \$ 10,297,870 | 26.8% | \$ 26,962,416 | 70.1% | \$ 38,349,076 | \$ 29.42 |
| Kyger Creek - 2018 (Comparison year) | 1086.3 | \$ 9,291,737 | 25.4% | \$ 27,299,234 | 74.6% | \$ 36,590,971 | \$ 33.68 |
| Kyger Creek - 2019 (Comparison year) | 1086.3 | \$ 8,292,050 | 25.1% | \$ 24,800,789 | 74.9% | \$ 33,092,839 | \$ 30.46 |
| Kyger Creek - 2020 (Audit year) | 1086.3 | \$ 7,174,591 | 22.8% | \$ 23,461,244 | 74.6% | \$ 31,459,402 | \$ 28.96 |
| Kyger Creek - 3-yr Avg | 1086.3 | \$ 8,252,793 | 24.4% | \$ 25,187,089 | 74.7% | \$ 33,714,404 | \$ 31.04 |

Source: LEI DR 05-007 - Attachment 1 – Confidential.

9.3.2 Plant maintenance processes

Regular planned maintenance is important to ensure reliability of supply from the generating fleet. OVEC plant maintenance includes the day-to-day maintenance activities driven by the maintenance planning process, “emergent” (emergency) work, unplanned outage work, and outage preventative maintenance tasks.¹⁶⁵ Major outage projects (including but not limited to SCR catalyst replacement, air heater basket major replacement, major boiler tube replacements, ash hopper rebuilds, booster fan rebuilds, JBR repairs, and turbine inspections) require large crews for a specific duration and are therefore contracted. Craft labor is contracted for scaffolding, insulation, and vacuuming needs. Plant employees mostly conduct routine maintenance, testing, and small calibration and repairs (such as damper repairs, precipitator routine maintenance, miscellaneous small valve repairs and replacements, air preheater seals and basket replacement, instrument and control MATS calibrations and testing, electrical breaker cleaning and relay calibrations).¹⁶⁶

9.3.3 Planned outage process is well designed

OVEC uses a comprehensive handbook which clearly delineates roles and responsibilities related to planned outages.¹⁶⁷ Outages at OVEC’s plants are planned and executed by the Outage Management Team, which involves the following key members:¹⁶⁸

- **Outage Manager:** assigned by the Plant Manager, or delegate. The Manager is responsible for the maintenance of the opportunity outage pool lists (when unanticipated changes on

¹⁶⁵ LEI-DR-05-003.

¹⁶⁶ Ibid.

¹⁶⁷ LEI DR 05-002 - Attachment 1.

¹⁶⁸ Ibid.

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the power system allow work to take place), planning, scheduling, and day-to-day management of the outage;

- **Outage Planner:** responsible for planning outage work orders to support pre-outage, outage execution and closure. The Planner serves as the single point contact responsible for communication of outage work order planning;
- **Outage Scheduler:** responsible for development, analysis, reporting, integration, maintenance and historical retention of outage schedules to support pre-outage, outage execution and closure;
- **Operations Production Superintendent/Gate Keeper:** represents the Operations organization and assists members of the Outage Management Team;
- **Clearance Coordinator:** assists members of the Outage Management Team;
- **System Lead/Engineer:** responsible for the planning, execution and closeout of specific planned outage systems or projects;
- **Maintenance Manager:** supports the outage by providing necessary resources and holding those assigned accountable to safely execute planned work;
- **Maintenance Production Superintendent:** coordinates resources to support the execution of the scheduled outages;
- **Maintenance Supervisor:** responsible for execution and closeout for labor and maintenance activities;
- **Safety Coordinator:** the point of contact for safety review, execution, and improvement at the plant;
- **Environmental Coordinator:** the point of contact for environmental review, execution, and improvement at the plant; and
- **Outage Coordinator:** responsible for coordinating assigned outage activities such as contracted cleaning services, or large-scale projects requiring oversight.

OVEC's handbook outlines a standard planned outage process that provides a structure for outage planning, implementation, and continuous improvement. The process monitors four key steps, namely: Preplanning, Planning, Execution, and Close-out (see Figure 55).¹⁶⁹

The **Preplanning process** provides the plan for all long-term strategic planning, budgeting, and material purchases. Five-year forecasts for O&M and capital budgets are developed, and the high-level scope for each outage is established. Long lead material purchases are identified, planned,

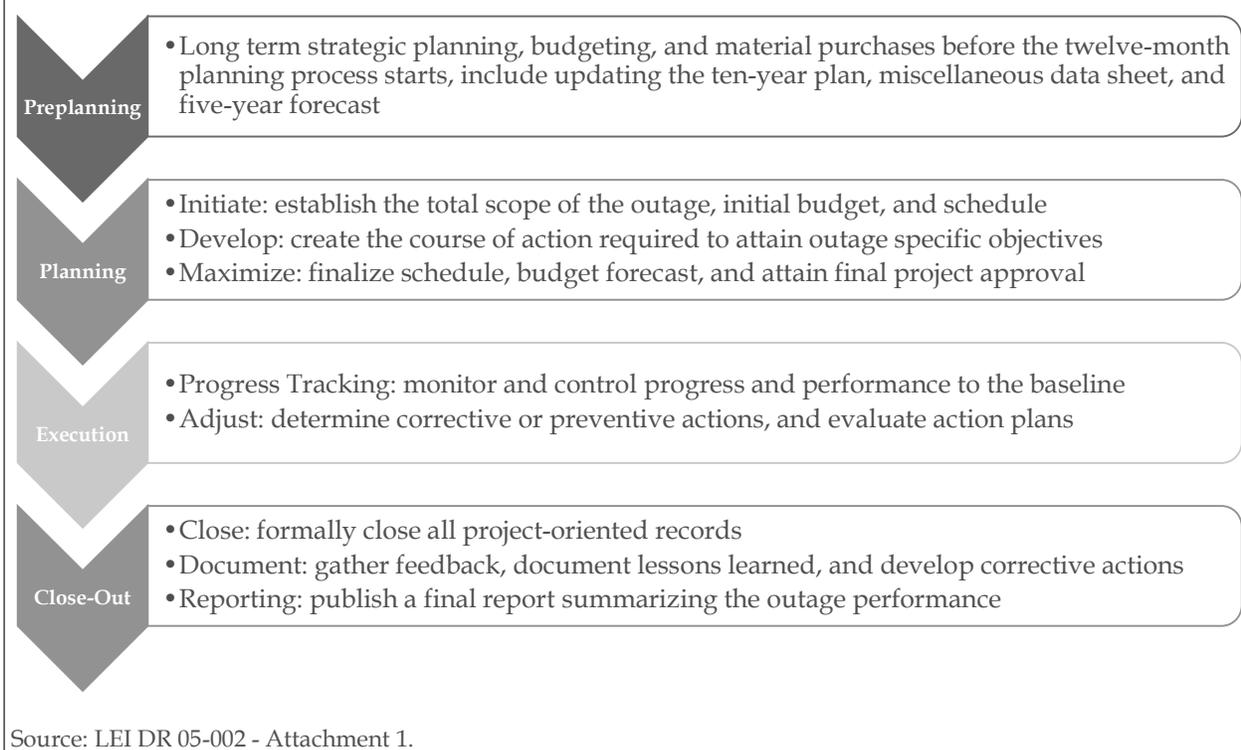
¹⁶⁹ Ibid.

budgeted, and ordered. On an annual basis the following year's budget is provisionally approved by top level management.

The **Planning** process develops the annual project plan and documents that will be used to carry out the outage. The Planning step is made up of three phases: *Initiate*, *Develop*, and *Maximize*. These phases encompass a twelve-month (48-week) timeline, and there is overlap among them.

- *initiate* phase consists of processes performed to establish the total scope of the outage and it is conducted during the first six months of the twelve-month planning timeline. The outage scope will include the required maintenance for continued safe and environmentally responsible operation of the unit. Along with the scope, an initial budget forecast and a level 1 schedule (i.e., a high-level overview) is developed which depicts the outage duration in the form of major milestones needed for successful completion.
- *develop* phase consists of creating the course of action required to attain specific outage objectives (including cost, schedule, and scope) through the planning of each job. This takes two months of the twelve-month planning timeline. The outage scope is further developed to meet unit performance expectations within budget constraints.
- *maximize* phase finalizes the course of action required to attain specific outage objectives. This phase includes publishing the level 3 schedule (a detailed schedule with the critical path identified), finalizing the forecast and attaining final project approval through a formal readiness review with Plant Senior Management. This phase starts three months into the planning phase, while the initiate phase is still under way. The Maximize phase concludes with a Readiness Review, which presents to Senior Management the safety plans, work scope, budget, schedule, and project risks.

Figure 55. OVEC's outage planning process



The **Execution** step consists of the processes to track, review, forecast, and regulate the progress and performance of the outage. Execution is made up of two phases: *Progress Tracking* and *Make Adjustments*. The *Track* phase acts as the embedded test measuring progress versus baseline expectations, while the *Adjust* phase represents the countermeasures put in place to rectify any change or deviations from the plan.

- *progress tracking* phase includes monitoring and controlling progress and performance to the baseline. Progress and performance are tracked through the Execution Key Performance Indicator's ("KPIs"): Safety, Budget, Schedule, Scope, and Quality.
- *adjust* phase involves determining corrective or preventive action and following up on action plans to determine if the actions taken resolved the performance issues. When changes occur, the System Lead reports effects of that change against the outage KPIs to Outage Manager.

The **Close-Out** process consists of the processes performed to finalize all activities and complete the outage. The Close-Out process is made up of three phases: *Close*, *Document*, and *Reporting*. The benefits of this phase are documented lessons learned, archived project documentation, contract closure, and process updates. This process encompasses a three-month timeline after the unit has been returned to operation.

- *close* phase includes involves the disposition of all unused material, rentals, and finalizing all contracts and work orders.

- *document* phase involves those processes necessary to gather feedback, document lessons learned, and develop corrective actions for any issues encountered during all phases of the outage process.
- *reporting* phase results in a final report. An outage summary is completed to evaluate project performance against the objectives of safety, scope, schedule, cost, and quality. Recommended future work will be included as well. The final report is completed by the Outage Manager following the OVEC/IKEC Outage Reporting procedure.

Upon reviewing the Planned Outage Handbook, LEI finds OVEC's outage planning to be thorough and well-documented. Activities involved in each step are laid out in an organized way and responsibilities regarding are clearly assigned to specific personnel.

9.3.4 Actual maintenance costs declined faster than planned costs

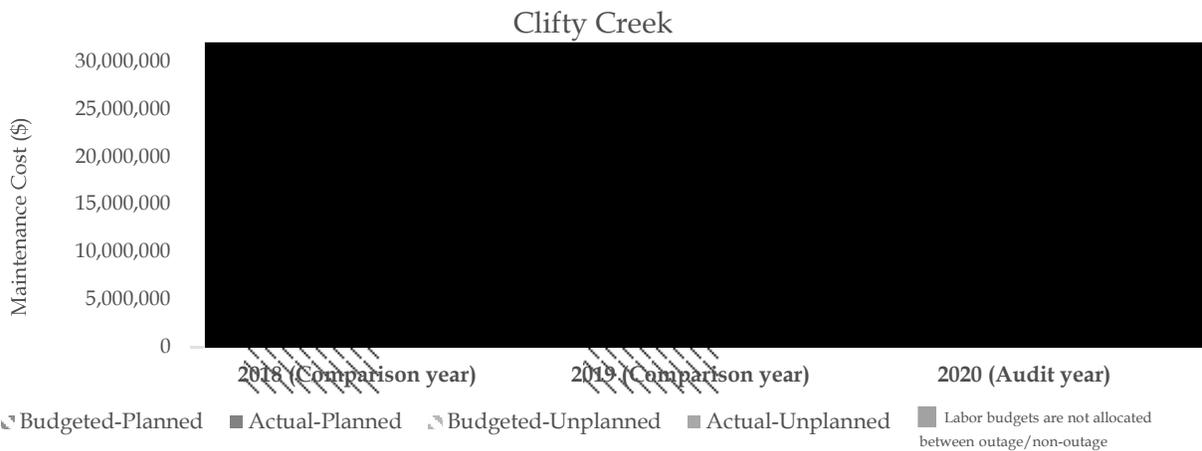
Actual outage maintenance costs are charged to AES Ohio customers in the LGR Rider. Therefore, it is important to evaluate the reasonableness and prudence of OVEC's outage costs.

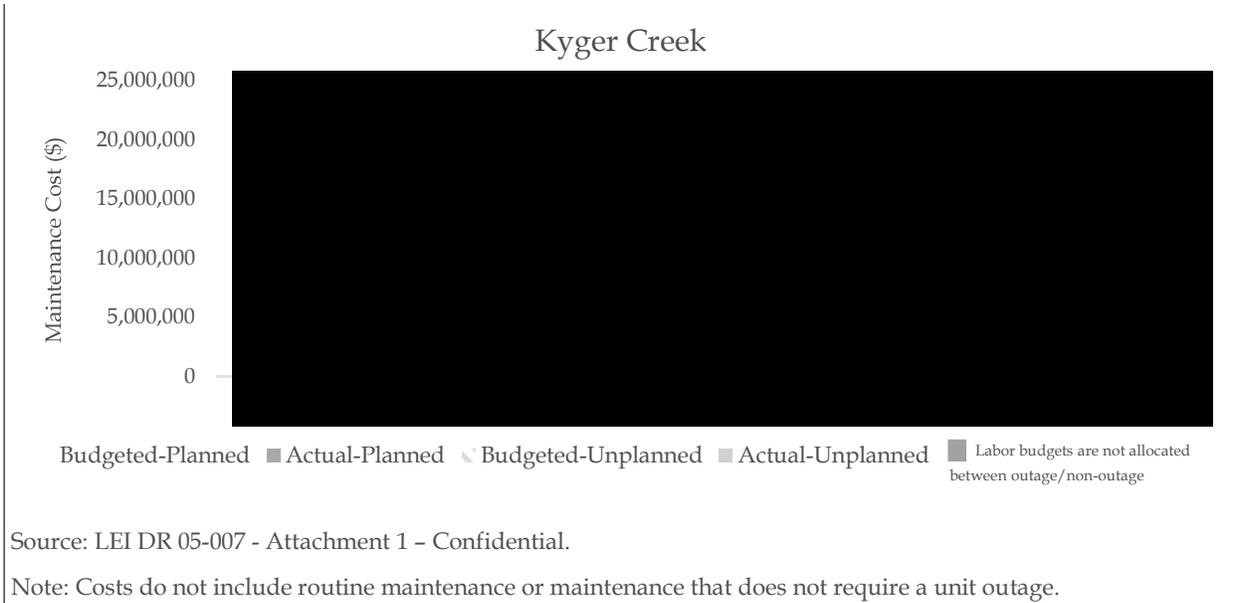
LEI compared the generation assets' non-fuel O&M budget, which includes labor and non-labor/others, to actual maintenance costs for the audit period and 2018-2019. Actual outage maintenance costs were about [REDACTED] lower than the budgeted costs throughout 2020. In 2019, the outage activities of OVEC-IKEC's generating fleet were \$ [REDACTED] million, compared to budgeted costs of [REDACTED] million, which is [REDACTED] lower than forecasted. In 2020, the cost was about \$ [REDACTED] million, which is [REDACTED] lower than the budgeted costs of \$ [REDACTED] million. Overall, for 2018, 2019, and 2020, budgeted costs and actual costs have declined year-on-year consistently, while the difference between the budgeted costs and actual costs has increased (see Figure 56). In other words, actual costs were consistently lower than OVEC expected.

Figure 56. Maintenance costs for OVEC plants, budget vs actual, 2018-2020

| Location | Outage type | 2018 | | | 2019 | | |
|-------------------|-------------|---------------|-------------|----------|---------------|-------------|----------|
| | | Budgeted (\$) | Actual (\$) | Diff (%) | Budgeted (\$) | Actual (\$) | Diff (%) |
| Clifty Creek | Planned | | | | | | |
| | Unplanned | | | | | | |
| | Total | | | | | | |
| Kyger Creek | Planned | | | | | | |
| | Unplanned | | | | | | |
| | Total | | | | | | |
| OVEC - IKEC Total | | | | | | | |

| Location | Outage type | 2020 | | | | | | | | |
|-------------------|-------------|-----------------------|-----------------------|-----------------------|---------------------|---------------------|---------------------|------------------|------------------|------------------|
| | | Budgeted (other) (\$) | Budgeted (labor) (\$) | Budgeted (total) (\$) | Actual (other) (\$) | Actual (labor) (\$) | Actual (total) (\$) | Diff (other) (%) | Diff (labor) (%) | Diff (total) (%) |
| Clifty Creek | Planned | | | | | | | | | |
| | Unplanned | | | | | | | | | |
| | Total | | | | | | | | | |
| Kyger Creek | Planned | | | | | | | | | |
| | Unplanned | | | | | | | | | |
| | Total | | | | | | | | | |
| OVEC - IKEC Total | | | | | | | | | | |





9.3.5 Plant performance

OVEC-IKEC utilizes key indicators or metrics as part of their Open Book Leadership (“OBL”) initiative where metrics are reviewed on a weekly or monthly basis with employees. OBL is a management philosophy that OVEC-IKEC has utilized since 2015 to empower employees by providing them the information, education, and communication necessary to understand how the Company performs and how they can impact that performance. OVEC-IKEC utilizes an internal benchmarking process to set performance goals for improvement every year. Key plant metrics for OVEC-IKEC for 2018 through 2020 include safety, environmental compliance, budget adherence, and unit performance metrics such as equivalent forced outage rate, heat rate, capacity factor, equivalent unplanned outage factor, and equivalent availability factor.¹⁷⁰

For the purpose of this audit, LEI focused on the following key performance indicators:

- Heat Rate, an indicator of the efficiency in converting thermal energy from fuel into electrical energy;
- Capacity Factor (“CF”), an indicator of capacity utilization which is defined as the ratio of actual energy output to the maximum possible energy output over a given period of time;
- Equivalent Forced Outage Rate (“EFOR”), a reliability metric defined as the proportion of a period where a unit is not available due to forced outages and forced de-ratings; and
- Equivalent Availability Factor (“EAF”), a reliability metric defined as the proportion of a period where a unit is available without any outages or equipment deratings.

¹⁷⁰ LEI-DR-05-005; LEI DR 05-005 - Attachment 2 - Confidential.

9.3.5.1 Heat rates worsened in 2020

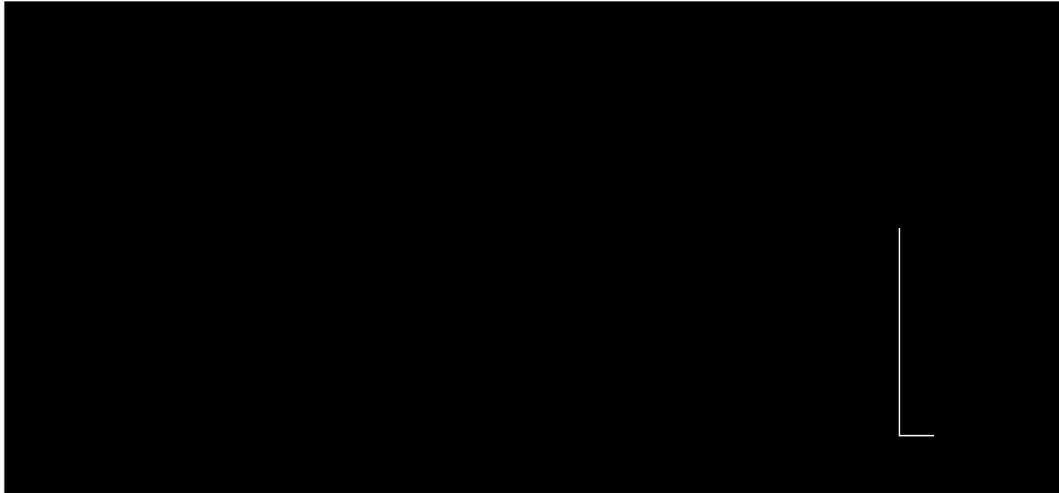
Heat rates, typically expressed in Btu/kWh, measure the efficiency with which a unit converts the energy from fuel into electricity. The lower the heat rate, the more efficient the unit is at generating electricity from a given amount of fuel. Plants with lower heat rates burn less fuel, and so cost less to generate a given amount of electricity (all else being equal).

Several factors can influence a unit's heat rate, such as original design, operating parameters, age, or unit load. Maintenance is important to ensure that the heat rate will not increase significantly as the unit ages.

LEI examined three years of annual heat rates, including the audit period (2020) and comparison years (2018 and 2019) (see Figure 57). Nearly all the OVEC units had higher heat rates (were less efficient) than the PJM average every year. The exceptions were Clifty Creek Units 1 and 5, and Kyger Creek Unit 3 in 2019. However, though all units had higher heat rates than the PJM average in 2020, the only unit with a heat rate more than 10% higher than the PJM average was Clifty Creek Unit 6.

All the coal units at both plants experienced an increased net heat rate between 2019 and 2020 (worsening efficiency). Lower energy prices in PJM lead to more frequent dispatch at lower operating rates, thereby increasing the heat rates.¹⁷¹

Figure 57. Generation unit heat rates (Btu/kWh)



Source: LEI DR 05-004; LEI DR 05-004 - Attachment 1. PJM average heat rate aggregated by S&P Global Market Intelligence.

Note: Highlights in yellow indicate heat rates that are higher than the PJM Average by more [redacted] highlights in red indicate that the year-to-year (2019-2020) increase in heat rates of OVEC plants is [redacted]

¹⁷¹ Oral presentation from OVEC staff during the virtual plant site visit on November 17, 2021.

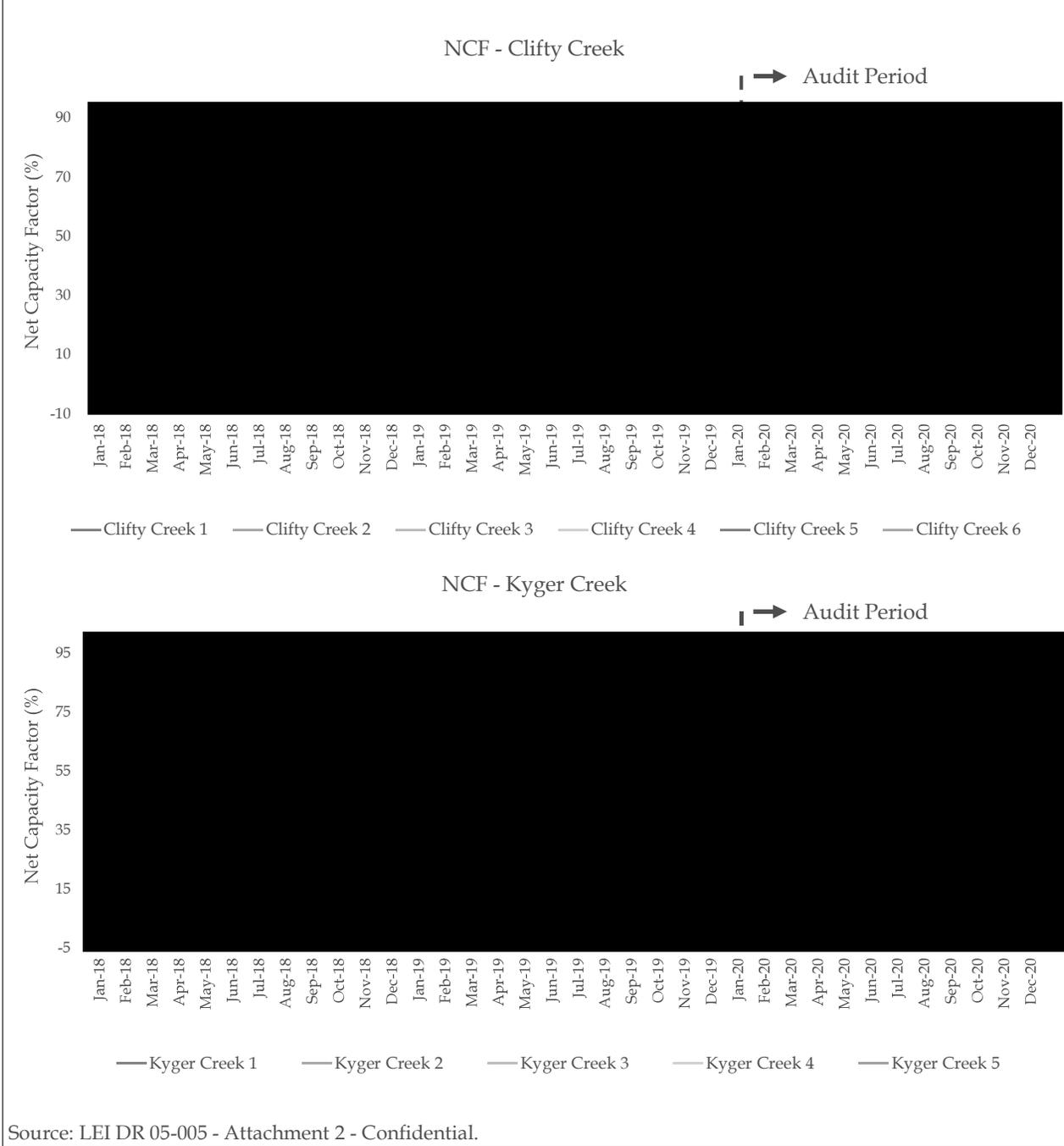
9.3.5.2 OVEC units' capacity factors declined in 2020

The CF is the ratio of the actual energy generation over a given period of time to the maximum possible generation over that period. Typically, plants with lower operating costs (based on cheaper fuel and/or lower heat rates) will have higher capacity factors, because they are dispatched more often, although other causes such as maintenance or planned outages can affect a plant's CF.

Net CF ("NCF")¹⁷² all declined in 2020 compared to 2019 (see Figure 58).

¹⁷² Net generation is the gross unit generation less the parasitic (auxiliary) load used by the unit to generate the gross output.

Figure 58. Monthly NCF of OVEC units, 2018-2020



Source: LEI DR 05-005 - Attachment 2 - Confidential.

During the audit period, all plants experienced a year-on-year decline in the NCF, in the range of [REDACTED] % for the Clifty Creek plant and between [REDACTED] for Kyger Creek (see Figure 59). Despite the decline, with the exception of Clifty Creek Unit 6, all units had CFs higher than the average of other PJM coal plants of similar size.

Figure 59. Generation units average annual NCF (%), 2018-2020

| Units | NCF | | |
|--------------------------------------|---------------------------|---------------------------|------------------------|
| | 2018 (Comparison year) | 2019 (Comparison year) | 2020 (Audit period) |
| Clifty Creek 1 | | | |
| Clifty Creek 2 | | | |
| Clifty Creek 3 | | | |
| Clifty Creek 4 | | | |
| Clifty Creek 5 | | | |
| Clifty Creek 6 | | | |
| <i>Clifty Creek Average</i> | | | |
| Kyger Creek 1 | | | |
| Kyger Creek 2 | | | |
| Kyger Creek 3 | | | |
| Kyger Creek 4 | | | |
| Kyger Creek 5 | | | |
| <i>Kyger Creek Average</i> | | | |
| <i>PJM Average (Capacity Factor)</i> | | | |

Source: Plant data from LEI DR 05-005 - Attachment 2 - Confidential; PJM Average data aggregated by S&P Global Market Intelligence.

Note: Highlights in yellow indicate NCFs that are lower than the PJM average by [REDACTED]

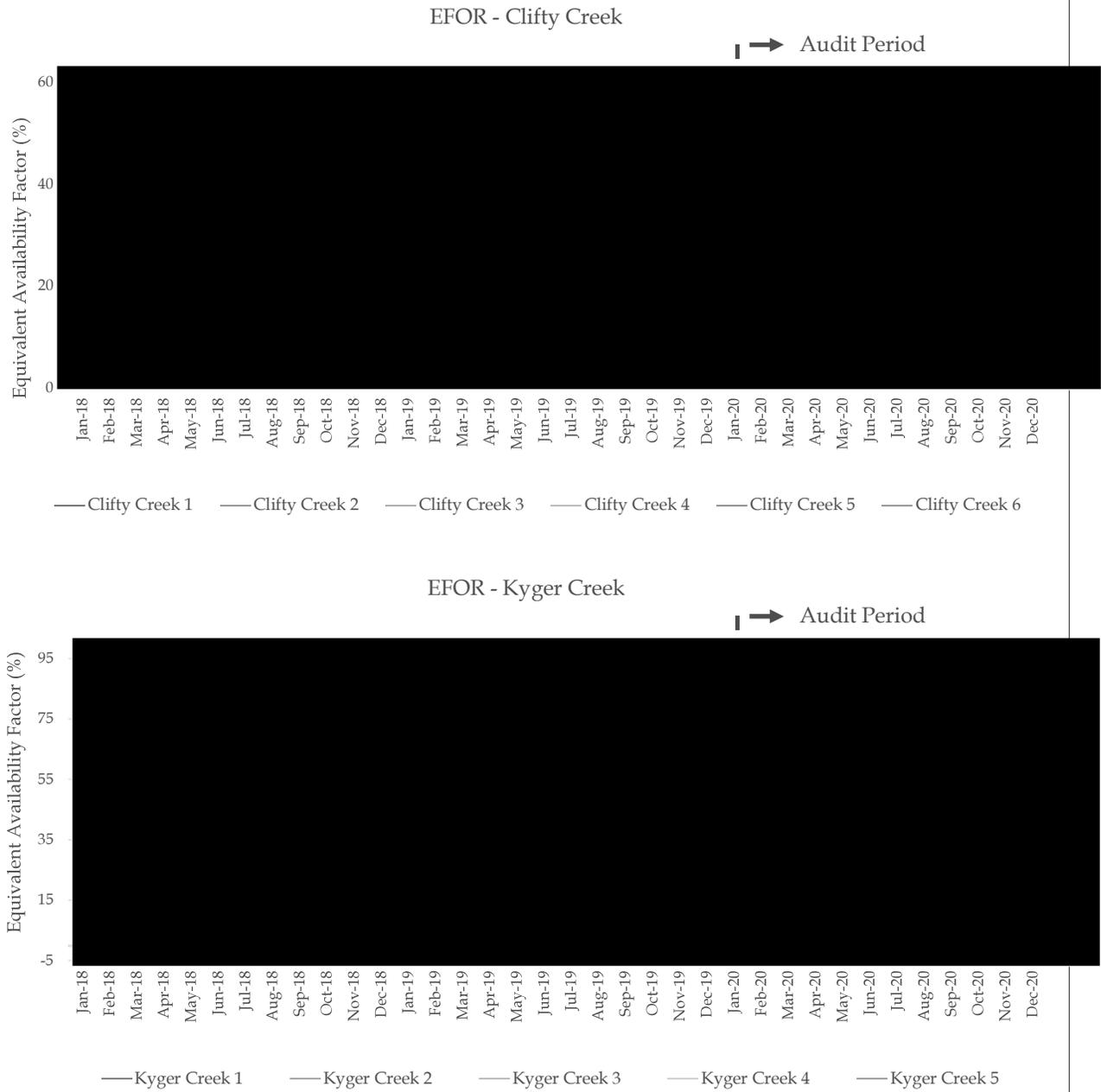
9.3.5.3 EFOR data indicate OVEC plants were more reliable than industry averages in 2020

EFOR reflects the number of hours a unit is forced off-line, compared to the number of hours a unit is running. For example, an EFOR of 5% reflects that the unit or plant is forced off 5% of its running time. A lower EFOR therefore reflects higher a better-maintained plant. During the audit period, the EFOR declined (improved) for four of the six Clifty Creek units and increased (deteriorated) for four of the five Kyger Creek units.

In comparison to the benchmark EFOR demand (EFORd) published by PJM (for coal plants) and weighted EFOR (“WEFOR”) published by the NERC (for coal plants), all OVEC units improved EFORs (see Figure 60). WEFOR is a mean outage rate calculated by taking the sum of each unit’s capacity weighted forced outage and derate hours divided by the sum of the total equivalent service, outage, and derate hours.¹⁷³

¹⁷³ NERC. 2020 State of Reliability Report. July 2020. p. 38. <
https://www.nerc.com/pa/RAPA/PA/Performance%20Analysis%20DL/NERC_SOR_2020.pdf>

Figure 60. EFOR of OVEC units, 2018-2020



| Units | EFOR | | |
|-----------------------------|---------------------------|---------------------------|------------------------|
| | 2018 (Comparison year) | 2019 (Comparison year) | 2020 (Audit period) |
| Clifty Creek 1 | | | |
| Clifty Creek 2 | | | |
| Clifty Creek 3 | | | |
| Clifty Creek 4 | | | |
| Clifty Creek 5 | | | |
| Clifty Creek 6 | | | |
| <i>Clifty Creek Average</i> | | | |
| Kyger Creek 1 | | | |
| Kyger Creek 2 | | | |
| Kyger Creek 3 | | | |
| Kyger Creek 4 | | | |
| Kyger Creek 5 | | | |
| <i>Kyger Creek Average</i> | | | |
| <i>Industry Average</i> | | | |
| <i>PJM Average</i> | | | |

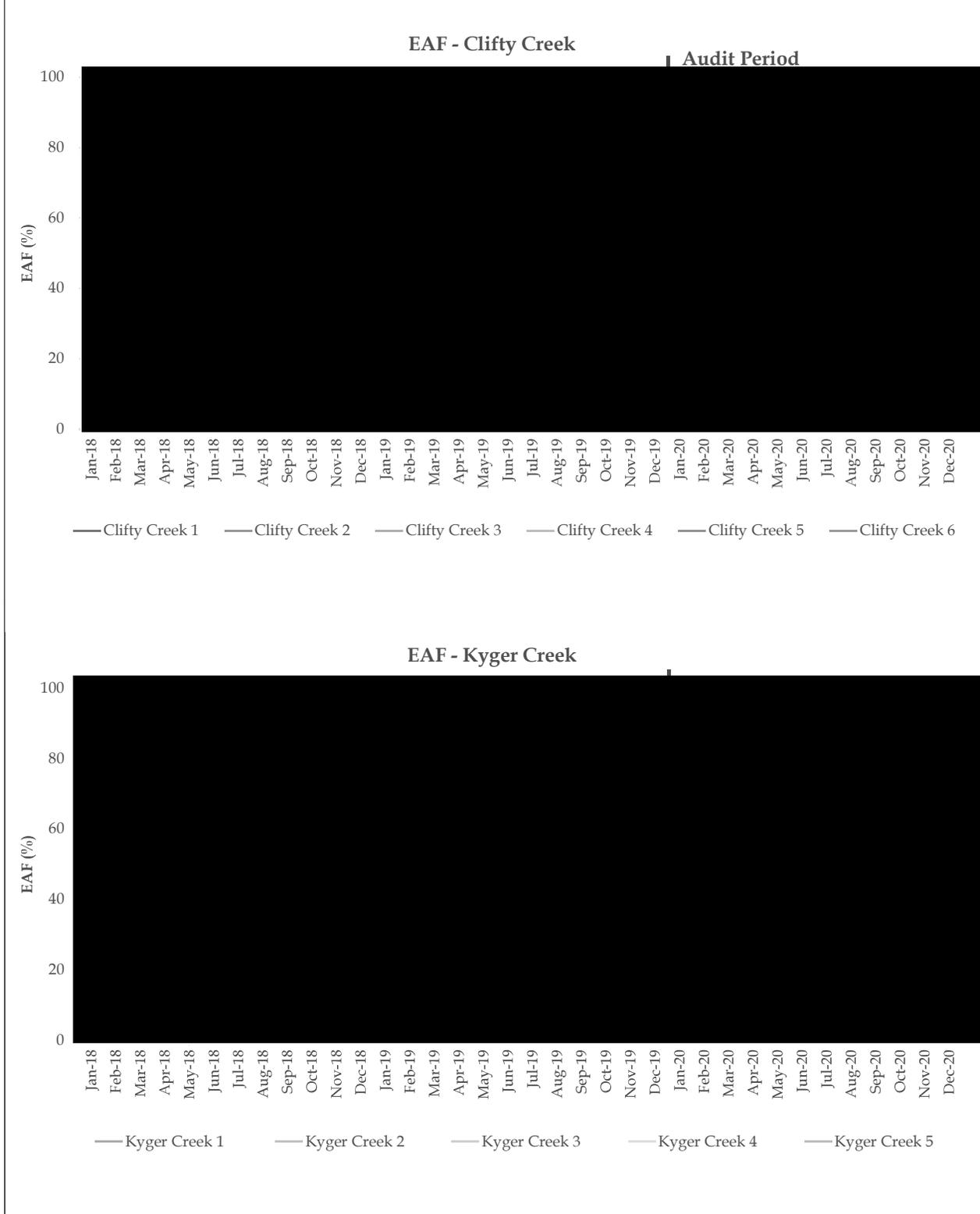
Source: LEI DR 05-005 - Attachment 2 - Confidential; Industry average WEFOR is published annually by NERC for all fuel types including coal. < <https://www.nerc.com/pa/RAPA/gads/Pages/Reports.aspx>>; PJM average EFORd is published on the PJM data miner.

Note: Highlights in yellow indicate EFORs that are higher than the industry average by [redacted] while the highlights in red indicate EFORs that are higher than the industry average by more [redacted]

9.3.5.4 EAF data indicates that most of the OVEC plants were available as often as PJM averages

EAF reflects the proportion of a period of time that energy could be generated if limited only by outages and deratings. A higher EAF reflects a better-maintained plant. During the audit period, EAF performance was mixed: EAFs at Clifty Creek Units 1 and 6 improved, but EAFs for Clifty Creek Units 2-5 declined (see Figure 61). EAFs at Kyger Creek Units 1, 2, and 5 improved, while EAFs at Units 3 and 4 declined.

Figure 61. EAFs of OVEC units, 2018-2020



| Units | EAF | | |
|-----------------------------|---------------------------|---------------------------|------------------------|
| | 2018 (Comparison year) | 2019 (Comparison year) | 2020 (Audit period) |
| Clifty Creek 1 | | | |
| Clifty Creek 2 | | | |
| Clifty Creek 3 | | | |
| Clifty Creek 4 | | | |
| Clifty Creek 5 | | | |
| Clifty Creek 6 | | | |
| <i>Clifty Creek Average</i> | | | |
| Kyger Creek 1 | | | |
| Kyger Creek 2 | | | |
| Kyger Creek 3 | | | |
| Kyger Creek 4 | | | |
| Kyger Creek 5 | | | |
| <i>Kyger Creek Average</i> | | | |
| <i>PJM Average</i> | | | |

Source: LEI DR 05-009 - Attachment 1 - Confidential; Monitoring Analytics. 2020 State of Market Report – PJM. p. 44; Monitoring Analytics. 2019 State of Market Report – PJM. p. 45.

Note: Highlights in yellow indicate EAFs that are lower than the PJM average by [REDACTED] and highlights in red indicate EAFs that are lower than the PJM average by [REDACTED]

9.3.6 Emergency procedures and COVID-19 response

OVEV managers reported that the plants each have operating procedures in place for summer and winter readiness, and to deal with local flash flooding if that should occur.¹⁷⁴ Managers reported that the coal piles have never frozen to the point at which they are unusable. However, if needed, coal can be loaded straight into the plants, or re-located to alternate conveyors. With respect to flooding, operators monitor water levels of the Ohio River, and access and escape plans are in place.

OVEC managers reported that COVID-19 protocols during the audit period included social distancing and mask-wearing, and remote working for non-essential personnel.¹⁷⁵ Managers noted that COVID-19 protocols did not impact OVEC’s available personnel to a level that resulted in an inability to operate the plants.

¹⁷⁴ Virtual site visit, November 17, 2020.

¹⁷⁵ Ibid.

9.4 Recommendations

Based on the findings discussed in this section, LEI makes the following recommendations:

- In 2020, low energy prices led to generally lower operating levels and higher heat rates. This may be temporary but was in contrast to the PJM average heat rate, that which actually declined in 2020. AES Ohio, in its role on the OVEC Operating Committee, should monitor performance to ensure efficient operation of the plants.
- During the audit period a few units' EAFs were below PJM averages. LEI recommends that AES Ohio, in its role on the Operating Committee, determine if it is cost-effective to take measures improve availability.

10 Appendix of acronyms

| | |
|-----------------|---|
| AAAR | Alternate Authorized Account Representative |
| AAR | Authorized Account Representative |
| ACES | Alliance for Cooperative Energy |
| AEC | Atomic Energy Commission |
| A/S | Ancillary Service |
| BAT | Best Available Technology |
| BOD | Board of Directors |
| BRA | Base Residual Auction |
| BTU | British Thermal Unit |
| CAA | 1970 Clean Air Act |
| CAAA | Clean Air Act Amendments |
| CAIR | Clean Air Interstate Rule |
| CAMD | Clean Air Markets Division |
| CAMR | Clean Air Mercury Rule |
| CCGT | Combined cycle gas turbine |
| CCR | Coal Combustion Residuals |
| CEMS | Continuous Emissions Monitoring System |
| CF | Capacity Factor |
| CFO | Chief Financial Officer |
| COO | Chief Operation Officer |
| CO ₂ | Carbon Dioxide |
| CP | Capacity Performance |
| CSAPR | Cross-State Air Pollution Rule |
| DA | Day Ahead |
| DEO | Duke Energy Ohio |
| DEOK | Duke Energy Ohio and Kentucky |
| DOE | Department of Energy |
| DR | Data Request |
| EAF | Equivalent Availability Factor |
| EFOR | Equivalent Forced Outage Rate |
| EIA | Energy Information Administration |
| ELG | Effluent Limitations Guidelines |
| EPA | Environmental Protection Agency |
| EPRI | Electric Power Research Institute |
| ESH | Environmental, Safety, and Health |
| ESP | Electricity Security Plan |
| FERC | Federal Energy Regulatory Commission |
| FES | FirstEnergy Solutions |
| FGD | Flue gas desulfurization |
| FP | Fuel Procurement |

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| | |
|-----------------|---|
| HB 6 | House Bill 6 |
| HR | Heat Rate |
| ICPA | Inter-Company Power Agreement |
| IDEM | Indiana Department of Environmental Management |
| IKEC | Indiana-Kentucky Electric Corporation |
| IOUs | Investor-owned utilities |
| IRP | Integrated Resource Plan |
| JBR | Jet Bubbling Reactor |
| KPI | Key Performance Indicator |
| kWh | Kilowatt Hour |
| LCOE | Levelized cost of energy |
| LDA | Locational Delivery Area |
| LEI | London Economics International LLC |
| LGR | Legacy generation resource |
| LSE | Load Serving Entity |
| MATS | Mercury and Air Toxics Standards |
| MISO | Midcontinent Independent System Operator |
| MOPR | Minimum Offer Price Rule |
| MW | Megawatt |
| NCF | Net Capacity Factor |
| NERC | North American Electric Reliability Corporation |
| NO _x | Nitrous Oxide |
| NPDES | National Pollution Discharge Elimination System |
| O&M | Operations and maintenance |
| OBL | Open Book Leadership |
| OFA | Overfire air system |
| OVEC | Ohio Valley Electric Corporation |
| PAH | Performance Assessment Hours |
| | Pipeline and Hazardous Materials Safety |
| PHMSA | Administration |
| PJM | PJM Interconnection |
| PM | Particulate matter |
| PPA | Power Purchase Agreement |
| PPR | Power Participation Ratio |
| PSR | Price Stabilization Rider |
| PUCO | Public Utilities Commission of Ohio |
| RFP | Request for Proposal |
| RGGI | Regional Greenhouse Gas Initiative |
| RPM | Reliability Pricing Model |
| RPS | Renewable Portfolio Standard |
| RT | Real Time |
| RTO | Regional transmission organization |
| SCR | Selective catalytic recovery |

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SGEE Steam Generation Equipment Engineering
SO₂ Sulfur Dioxide
SVP Senior Vice President
VP Vice President
WEFOR Weighted EFOR
WWTP Wastewater treatment plant

EXHIBIT 2

Independent Audits of the Legacy Generation Resource Riders of AEO Ohio, AES Ohio, and Duke Energy Ohio: Errata to be filed in Case No. 21-477-EL-RDR



[REDACTED]

Document prepared by London Economics International LLC

October 26, 2023

On behalf of the Public Utilities Commission of Ohio, London Economics International LLC ("LEI") conducted independent audits of the Legacy Generation Resource ("LGR") Riders of AEP Ohio ("AEP"), AES Ohio ("AEP"), and Duke Energy Ohio ("Duke"), Case No. 21-477-EL-RDR. The audit period covers January 1, 2020 through December 31, 2020. The Commission engaged LEI through RFP No. RA21-PPA-1.

This document contains errata to be filed related to LEI's final audit reports.

2. Errata pertaining to AES audit

With reference to LEI's report: *Audit of The Legacy Generation Resource Rider of AES Ohio Final Report* dated December 17, 2021:

- CONFIDENTIAL MATERIAL in Red: On page 29, Figure 13, LEI inadvertently double-counted capacity market earnings for AES. These earnings were already included in PJM settlements. LEI also used AES's Power Participation Ratio ("PPR"), not actual OVEC invoices, to calculate AES's share of OVEC generation (in MWh). The OVEC invoices show that AES's share of available monthly energy was calculated by OVEC based, not on AES's PPR, but based on AES's Available Energy Allocation Ratio ("AEAR"). The AEAR differs slightly from the PPR, and it also changes very slightly from month to month. Accordingly, LEI re-calculated AES's loss per MWh (the last column of Figure 13) using AES's AEAR rather than PPR. LEI arrived at a yearly average loss per MWh of \$37.76/MWh using the AEAR and the correction for previous double-counting of capacity revenues (see corrected Figure 13 below). This change has no impact on LEI's conclusions or recommendations.

Figure 13. **WHOLE FIGURE IS CONFIDENTIAL** AES's OVEC charges versus PJM earnings (corrected)

| Month | A AES's total OVEC charges | B AES's reported energy and capacity market PJM settlements | C = A + B Gain/(Loss) | D AES's share of OVEC generation (MWh) based on AEAR | E = C / D Gain/(Loss) per MWh |
|---------------------------|-------------------------------|--|--------------------------|---|----------------------------------|
| January 2020 | (\$2,441,783) | \$1,324,996 | (\$1,116,787) | 45,636 | (\$24.47) |
| February 2020 | (\$2,319,610) | \$1,098,962 | (\$1,220,648) | 40,458 | (\$30.17) |
| March 2020 | (\$2,505,114) | \$902,540 | (\$1,602,574) | 33,254 | (\$48.19) |
| April 2020 | (\$2,325,663) | \$600,441 | (\$1,725,222) | 18,792 | (\$91.81) |
| May 2020 | (\$2,156,559) | \$692,317 | (\$1,464,242) | 21,209 | (\$69.04) |
| June 2020 | (\$2,294,749) | \$1,052,129 | (\$1,242,620) | 41,049 | (\$30.27) |
| July 2020 | (\$2,573,569) | \$1,413,575 | (\$1,159,994) | 46,159 | (\$25.13) |
| August 2020 | (\$2,517,914) | \$1,274,771 | (\$1,243,143) | 44,042 | (\$28.23) |
| September 2020 | (\$2,391,031) | \$906,507 | (\$1,484,524) | 32,640 | (\$45.48) |
| October 2020 | (\$2,433,393) | \$963,340 | (\$1,470,053) | 28,707 | (\$51.21) |
| November 2020 | (\$2,560,939) | \$1,138,162 | (\$1,422,777) | 42,826 | (\$33.22) |
| December 2020 | (\$3,470,840) | \$1,616,031 | (\$1,854,808) | 55,597 | (\$33.36) |
| Total or weighted average | (\$29,991,165) | \$12,983,772 | (\$17,007,393) | 450,369 | (\$37.76) |

- On pages 53 and 54, (Figure 31 and 32), based on AEP's initial comments that LEI incorrectly calculated average weighted coal contract prices for Clifty and Kyger; and that the 2020 weighted average prices should have been lower, and virtually identical to 2019 levels, LEI re-examined our calculations. LEI's new calculations of weighted cost for 2020 were within pennies of the original numbers which LEI showed in the two figures in the final report. In any case, the results do not affect LEI's conclusions or recommendations with respect to the AES audit (or any of the audits), because the calculations refer to OVEC costs, which apply to all the audits.

- CONFIDENTIAL in red On pages 63-64, in Figures 39 and 41, LEI calculated the monthly average days of coal inventory for the Clifty Creek and Kyger Creek plants based on average burn in each month. However, OVEC' Fuel Procurement Strategy targets for days' supply of coal is based on full load burn (not average coal burn) as AEP noted in its Initial Comments and as LEI noted in Figure 38 of LEI's audit report (page 66). LEI does not have the full load data to calculate a new set of monthly averages, which would be lower if full load burn rather than average burn were used. In its initial comments, AEP noted that the correct day's inventory level for 2020 for Clifty Creek should have been 57 days rather than LEI's calculation of 66 days, and for Kyger Creek should have been 66 days rather than 58 days. If AEP's calculations are correct, the inventories still exceed the targets set by OVEC in its Fuel Procurement Strategy. The results do not affect LEI's conclusions or recommendations.
- CONFIDENTIAL in red On pages 63-64 LEI transposed actual inventory levels of Clifty Creek (Figure 39) and Kyger Creek (Figure 41). See corrections below, including corrections for full load burn. The results do not affect LEI's conclusions or recommendations.

Figure 39. WHOLE FIGURE IS CONFIDENTIAL Clifty Creek coal inventory level (corrected)

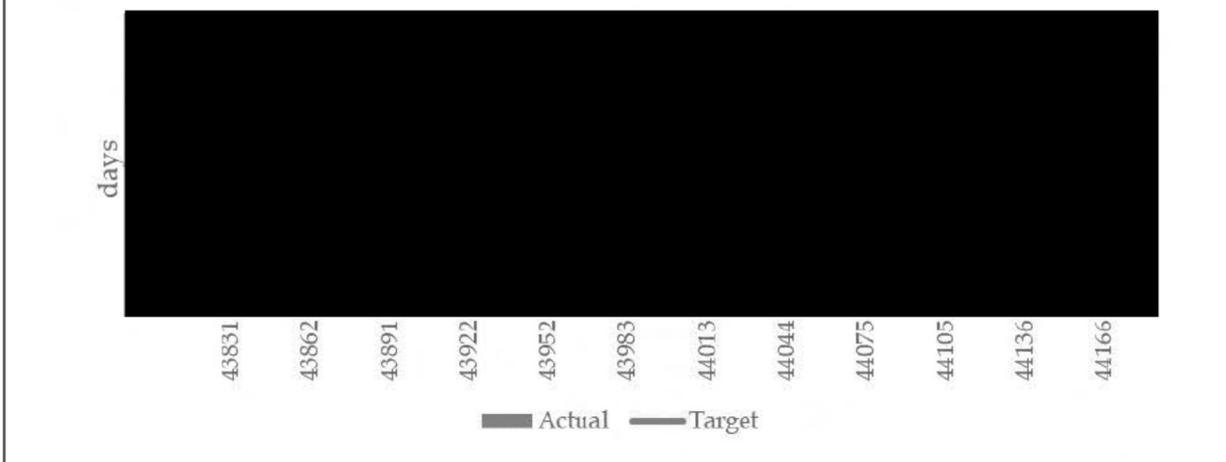
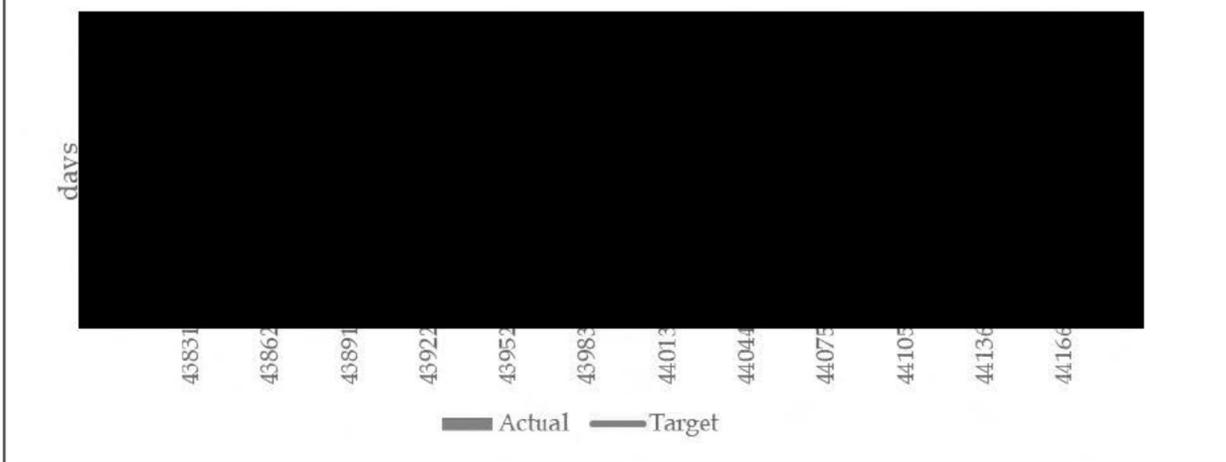


Figure 41. WHOLE FIGURE IS CONFIDENTIAL Kyger Creek coal inventory level (corrected)



- On page 89, in Figure 54: LEI miscalculated labor and non-labor O&M shares. The corrected Figure 54 is below. Shares of labor and non-labor O&M are slightly different than initially calculated, but the results do not change any conclusions or recommendations in the report.

Figure 54. WHOLE FIGURE IS CONFIDENTIAL OVEC Labor and non-labor O&M costs for Clifty Creek and Kyger Creek, 2018- 2020 (corrected)

| Plant - Year | Name Plate Capacity (MW) | Total Labor O&M Cost (\$) | Share of Labor cost to Total O&M Cost | Total Non-labor O&M Cost (\$) | Share of Non-Labor cost to Total O&M Cost | Total O&M Cost (\$) | O&M cost \$/kW-year |
|---------------------------------------|--------------------------|---------------------------|---------------------------------------|-------------------------------|---|---------------------|---------------------|
| Clifty Creek - 2018 (Comparison year) | 1303.6 | \$ 11,044,113 | 27.8% | \$ 28,748,034 | 72.2% | \$ 39,792,147 | \$ 30.52 |
| Clifty Creek - 2019 (Comparison year) | 1303.6 | \$ 10,741,216 | 27.0% | \$ 28,971,861 | 73.0% | \$ 39,713,077 | \$ 30.46 |
| Clifty Creek - 2020 (Audit year) | 1303.6 | \$ 9,108,282 | 28.2% | \$ 23,167,352 | 71.8% | \$ 32,275,634 | \$ 24.76 |
| Clifty Creek - 3-yr Avg | 1303.6 | \$ 10,297,870 | 27.6% | \$ 26,962,416 | 72.3% | \$ 37,260,286 | \$ 28.58 |
| Kyger Creek - 2018 (Comparison year) | 1086.3 | \$ 9,291,737 | 25.4% | \$ 27,299,234 | 74.6% | \$ 36,590,971 | \$ 33.68 |
| Kyger Creek - 2019 (Comparison year) | 1086.3 | \$ 8,292,050 | 25.1% | \$ 24,800,789 | 74.9% | \$ 33,092,839 | \$ 30.46 |
| Kyger Creek - 2020 (Audit year) | 1086.3 | \$ 7,174,591 | 23.4% | \$ 23,461,244 | 76.6% | \$ 30,635,835 | \$ 28.20 |
| Kyger Creek - 3-yr Avg | 1086.3 | \$ 8,252,793 | 24.6% | \$ 25,187,089 | 75.4% | \$ 33,439,882 | \$ 30.78 |

EXHIBIT 3

5. I have reviewed the redactions applied to the LEI Audit Report for AES Ohio, which was filed under seal on December 17, 2021 in Case No. 21-477-EL-RDR.

6. The public disclosure of the information in (1) columns B, C, E and G of Figure 13 on page 29 and (2) the information that was redacted in the public version of the LEI Audit Report on pages 41-42 would reveal competitively-sensitive details of AES Ohio's bidding strategies in the PJM capacity market.

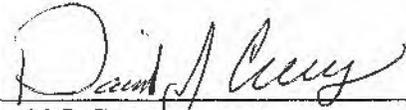
7. The PJM capacity revenue information in Column B on page 29 of the LEI Audit Report could reveal AES Ohio's capacity bidding strategy because the revenue information could be used to determine how much capacity AES Ohio offered into PJM's Base Residual Auction versus the supplemental auctions, which have different clearing prices. Public disclosure of the amount in Column B would also allow a person to determine the Equivalent Demand Forced Outage Rate (EFORD) that AES Ohio offered in the capacity auction. Public disclosure of the amounts in Columns C, E and G would allow a person to determine the information in Column B.

8. The information that was originally redacted on pages 41-42 of the LEI Report would reveal AES Ohio's capacity bidding strategy and the amounts that it has bid in past capacity auctions.

9. Release of the redacted information on pages 29 and 41-42 of the LEI Audit Report would harm AES Ohio customers. If this information were publicly available, it would offer insight on AES Ohio's capacity market bidding strategy to its direct competitors, which would impair AES Ohio's competitiveness in PJM's capacity auctions and ability to secure the best available outcome for our customers.

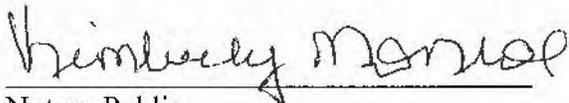
10. The information identified in paragraphs 6-9 above is stored by AES Ohio on secure computers to which the public does not have access. To the best of my knowledge, the information identified in paragraphs 6-9 above is not publicly available.

FURTHER AFFIANT SAYETH NAUGHT.



David J. Crusey

Sworn to before me and subscribed in my presence by David J. Crusey, this 4th day of January, 2024.



Notary Public

4872-4433-9354.1



KIMBERLY MONROE
Notary Public, State of Ohio
My Commission Expires:
October 27, 2025

EXHIBIT 4

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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

**AFFIDAVIT OF JUSTIN J. COOPER IN SUPPORT OF
DUKE ENERGY OHIO, INC., AES OHIO, AND AEP OHIO'S
MOTION FOR PROTECTIVE ORDER**

I, Justin J. Cooper, being first duly sworn in accordance with the law, deposes, and states:

1. I am over 18 years of age and have personal knowledge of the matters set forth in this Affidavit.
2. I am the Chief Operating Officer and Chief Financial Officer of Ohio Valley Electric Corporation, and I am authorized to make this Affidavit on behalf of Ohio Valley Electric Corporation (hereinafter referred to as the "Company"), which is headquartered at 3932 U.S. Route 23, Piketon, OH 45661. In this capacity, I oversee the Company's operations and financial matters.
3. I offer this Affidavit in support of the Company's claim that all of the redacted information contained in the audit reports filed in the above-captioned proceeding as well as the information specifically referenced in the table contained in Exhibit A attached to this Affidavit represent confidential information and should continue to be maintained as confidential.
4. To my knowledge, none of the information contained in Exhibit A has previously been made available to the general public, and the information is the subject of

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reasonable efforts to maintain its confidentiality. The Company and its employees treat the information as confidential in the ordinary course of business. If the confidential information were publicly disclosed, it would provide the Company's competitors with an unfair competitive advantage because the disclosure of this information would reveal confidential information about the Company's market activities and business operations which would be harmful to the Company.

5. The Company derives independent value as a result of the information contained in Exhibit A not being generally known to the public and revealing the information to the public would unfairly place the Company at an economic disadvantage versus market competitors.

ACKNOWLEDGMENT

Justin Cooper
Signed on 2024/01/04 11:38:36 -8:00

Justin J. Cooper

STATE OF OHIO)
) SS:
FRANKLIN COUNTY)

I, Leah McCue, a Notary Public in and for the County of Franklin, State of Ohio, do hereby certify that Justin J. Cooper, personally known to be the same person whose name is subscribed in the foregoing instrument, appeared before me this day in person and acknowledged that he signed and delivered the said instrument as his free and voluntary act, for the uses and purposes therein set forth.

Given under my hand and official seal this 4th day of January 2024.



[Signature]
Signed on 2024/01/04 11:38:36 -8:00

Notary Signature

Notarial act performed by audio-visual communication

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EXHIBIT A

OVEC POSITIONS ON CONFIDENTIAL AUDIT REPORT REDACTIONS

| <u>Confidential Subject Matter</u> | <u>Citation</u> | <u>Satisfaction of Legal Standard</u> |
|--|---|--|
| Total Demand Charge (Components) | Duke – p. 27, Figure 10, Columns A, B, C, E, F; (AES – p. 26, Figure 10, Columns A, B, C, E, F; AEP – p. 30, Figure 10, Columns A, B, C, E, F). | The components of the Total Demand Charges are confidential figures that OVEC uses reasonable efforts to protect from public disclosure. While the general components of the Total Demand Charge may be disclosed, the underlying figures should remain protected as their disclosure would reveal financial figures that would put OVEC at a competitive disadvantage versus its competitors. |
| Internal Unit Output vs. Demand Report | Duke – p. 40, Figure 21. | OVEC’s PJM Demand Comparison Report contains an internal operational analysis. Public disclosure of this report would give other parties information that could be used to approximate revenue data at the unit level. This is an internal report that OVEC protects from disclosure to parties outside of OVEC operations personnel and other sponsors. |
| OVEC Power Cost Projection | Duke – p. 44, Figure 24; AES – p. 39, Figure 19; AEP – p. 43, Figure 20. | While OVEC’s actual Total Power Cost is disclosed at the station level, OVEC does not disclose Power Cost budgeting and projection information, as this information reflects business operations planning figures. This information is protected from public disclosure by OVEC and is only shared with Sponsors and OVEC’s Board of Directors. |
| Equivalent Forced Outage Rate (EFOR) | Duke – p. 44, Figure 24; AES – p. 39, Figure 19; AEP – p. 43, Figure 20. | While EFOR figures are disclosed at the station level in OVEC’s Annual Reports, EFOR figures in the audit reports |

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| | Duke – pp. 105-106, Figure 67; AES – pp. 100-101, Figure 60; AEP – pp. 104-105, Figure 62. | are reflected at a unit-by-unit level which is more specific and competitively sensitive than information given in Annual Reports. OVEC protects against the public disclosure of these figures at the unit level. |
| Coal Procurement Strategy | Duke – p. 54, Figure 32 (and language in preceding paragraph); AES – p. 49, Figure 26 (and language in preceding paragraph); AEP – p. 52, Figure 27 (and language in preceding paragraph). Duke – pp. 56-57, Figures 35 & 36 (and language from first paragraph in Section 6.1.3.5.1); AES – pp. 52-53, Figures 29 & 30 (and language from first paragraph in Section 6.1.3.5.1); AEP – pp. 54-56, Figures 30 & 31 (and language from first paragraph in Section 6.1.3.5.1). | OVEC’s coal procurement strategies are highly confidential and if disclosed, this information could negatively impact future negotiations for both OVEC and its fuel suppliers. OVEC protects this information from public disclosure, as disclosure of OVEC’s coal procurement strategy would put OVEC at a disadvantage in the coal procurement market. |
| Coal Consumption Rates | Duke – p. 55, Figures 33 & 34; AES – p. 50, Figures 27 & 28; AEP – p. 53, Figures 28 & 29. | When coupled with forecasted coal consumption data, coal consumption rates could provide other parties with insight into the circumstances surrounding OVEC’s spot market coal purchases, providing OVEC’s competitors a potential competitive advantage. OVEC uses reasonable efforts to protect against disclosure of its coal consumption data. |
| Coal Contracts | Duke – pp. 56-57, Figures 35 & 36; AES – pp. 52-53, Figures 29 & 30; AEP – pp. 54-56, Figures 30 & 31. | OVEC’s fuel contracts contain confidential terms which are actively negotiated between OVEC and each counterparty including the date a contract was entered into and the term of the contract. If disclosed, this information could negatively impact future negotiations for both OVEC and its fuel suppliers by giving competitors an |



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| | | understanding of OVEC’s coal contract strategies. EIA does not disclose certain terms including coal contract duration, pricing structures (repricing terms), and other negotiated information. |
| Emergency Coal Procurement | Duke – p. 59 (language in Section 6.1.3.6.1); AES, p. 54 (language in Section 6.1.3.6.1); AEP, p. 57 (language in Section 6.1.3.6.1). Duke – p. 60, Figure 39; AES – p. 55, Figure 33; AEP – p. 58, Figure 34. | OVEC’s emergency strategy planning information should remain confidential as the disclosure of these planning strategies during emergency events could provide a competitive advantage for utilities and/or suppliers should spot market coal purchases be necessary during emergency events. OVEC maintains the confidentiality of its emergency coal procurement procedures. |
| Coal Transportation Contracts/Costs | Duke – p. 63, Figure 40; AES – p. 59, Figure 34; AEP – p. 62, Figure 35. Duke – p. 64, Figures 41 & 42; AES – p. 59, Figures 35 & 36; AEP – pp. 62-63, Figures 36 & 37. | OVEC’s coal transportation contracts contain confidential terms which are actively negotiated between OVEC and each counterparty. If disclosed, this information could negatively impact future negotiations for both OVEC and its coal transportation suppliers. OVEC uses reasonable means to maintain the confidentiality of its coal transportation contracts. |
| Coal Reagent Costs | Duke – p. 65, Figure 43; AES – p. 60, Figure 37; AEP – p. 64, Figure 38. | The disclosure of coal reagent cost and consumption data could provide OVEC’s competitors a competitive advantage in the reagent market. OVEC does not publicly disclose its coal reagent costs and uses reasonable means to protect against disclosure. |
| Coal Inventory Targets/Levels | Duke – p. 67, Figure 44; AES – p. 62 Figure, 38; AEP – p. 66, Figure 39. Duke – p. 68, Figure 45 (and levels redacted in Section 6.2.3.2); AES – p. 63, Figure 39 (and levels redacted in Section 6.2.3.2); AEP – p. 67, Figure | The disclosure of Coal Inventory Target levels could provide OVEC’s competitors with insight into OVEC’s need for spot market coal purchases as well as OVEC’s long term contract strategies, which could provide competitors an unfair advantage against OVEC in supplier negotiations. OVEC uses reasonable means to protect |



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| | <p>40 (and levels redacted in Section 6.2.3.2).</p> <p>Duke – p. 70, Figure 47; AES – p. 64, Figure 41; AEP – pp. 68, Figure 42.</p> | <p>against the disclosure of such confidential coal inventory planning information.</p> |
| Historical Generation | <p>Duke – p. 69, Figure 46; AES – p. 63, Figure 40; AEP – p. 67, Figure 41.</p> <p>Duke – p. 70, Figure 48; AES – p. 64, Figure 42; AEP – p. 69, Figure 43.</p> | <p>OVEC Historical Generation data is publicly available at the overall plant level. The graphs here represent data at the unit level and could be used by competitive parties to determine market position and alter offer strategies impacting unit dispatch. OVEC protects against disclosure of such confidential information and would advise against disclosure of data at the unit level.</p> |
| OVEC Capacity Factor | <p>Duke – p. 69, Figure 46; AES – p. 63, Figure 40; AEP – p. 67, Figure 41.</p> <p>Duke – p. 70, Figure 48; AES – p. 64, Figure 42; AEP – p. 69, Figure 43.</p> <p>Duke – p. 103, Figure 65 (and language in following paragraph); AES – p. 98, Figure 58 (and language in following paragraph); AEP – p. 102, Figure 60 (and language in following paragraph).</p> <p>Duke – p. 104, Figure 66 (and note included); AES – p. 99, Figure 59 (and note included); AEP – p. 103, Figure 61 (and note included).</p> | <p>OVEC Capacity Factor data is publicly available at the overall plant level. The graphs here represent data at the unit level and could be used by competitive parties to determine market position and alter offer strategies impacting unit dispatch. OVEC protects against disclosure of such information and would advise against disclosure of data at the unit level.</p> |



| | | |
|--------------------------------|--|--|
| OVEC Heat Rate | Duke – p. 101, Figure 64; AES – p. 96 Figure 57; AEP – p. 101, Figure 59. | OVEC Heat Rate data is publicly available at the overall plant level. The graphs here represent data at the unit level and could be used by competitive parties to determine market position and alter offer strategies impacting unit dispatch. OVEC protects against disclosure of such information and would advise against disclosure of data at the unit level. |
| OVEC Emissions Allowance | Duke – p. 84, Figure 54 (and amounts in following paragraph and associated footnote); AES – p. 78, Figure 48 (and amounts in following paragraph and associated footnote); AEP – p. 82, Figure 49 (and amounts in following paragraph and associated footnote). | The OVEC Emissions Allowance figure could allow OVEC’s competitors and other parties to understand the amount of allowance OVEC has available for potential resale. The disclosure of this information could put OVEC at a market disadvantage in the event of potential resale. OVEC protects against the public disclosure of such information. |
| Capital Expenditures/Budgeting | Duke – p. 89, Figure 57; AES – p. 83, Figure, 50; AEP – p. 87, Figure 52. Duke – pp. 90-91, Figure 58 (and amount in preceding paragraph); AES – pp. 84-85, Figure, 51 (and amount in preceding paragraph); AEP – pp. 88-89, Figure 53 (and amount in preceding paragraph). | Capital Expenditure-related information could provide OVEC competitors a market advantage by providing insight into OVEC’s decision making with regard to capital expenses and how the implementation of capital projects affects plant performance. OVEC does not publicly provide its capital expenditure plans as vendors and suppliers could determine OVEC’s budget information and approximate bid and cost information that could affect OVEC’s ability to obtain the lowest cost vendor or supplier for capital projects. OVEC uses reasonable means to protect against the disclosure of such confidential information. |
| O&M Costs | Duke – pp. 98-100, Figure 63 (and amounts in preceding paragraph); AES – pp. 93-95, Figure 56 (and | Operations and Maintenance Cost information could provide OVEC’s competitors a market advantage by providing insight into OVEC’s decision making regarding |

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| | amounts in preceding paragraph); AEP – pp. 97-99, Figure 58 (and amounts in preceding paragraph). | Operations and Maintenance at the unit level and can be used to determine the impact of such costs on plant performance. While FERC Form 1 does provide similar information, the information is provided at a lesser detailed level than what was provided to the auditor. For instance, outage and non-outage information is not contained in FERC Form 1 and would provide insight into OVEC’s confidential maintenance practices. |
| Equivalent Availability Factor (EAF) | Duke – pp. 107-108, Figure 68; AES – 102-103, Figure 61; AEP – pp. 106-107, Figure 63. | While EAF information is available in OVEC’s Annual Report, the information is not reflected in the Annual Report on a unit-by-unit level. Disclosing this information would provide insight into how OVEC’s plants are performing at the unit level, which would give OVEC’s competitors an unfair competitive advantage. OVEC protects against the disclosure of such information at the unit level. |

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Cooper Affidavit - Case No. 21-47723592965.1.pdf

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E-Signature Summary

E-Signature 1: Justin Cooper (JJC)

January 04, 2024 11:38:36 -8:00 [08CC9D7A595C] [70.62.199.115]
jcooper@ovec.com (Principal)

E-Signature Notary: Leah McCue (lmc)

January 04, 2024 11:38:36 -8:00 [75D84231218C] [216.221.27.42]
lmccue@beneschlaw.com

I, Leah McCue, did witness the participants named above electronically sign this document.



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Commission of Ohio Docketing Information System on**

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Case No(s). 21-0477-EL-RDR

Summary: Motion Motion of the Dayton Power and Light Company d/b/a AES Ohio for a Protective Order electronically filed by Mr. Jeffrey S. Sharkey on behalf of The Dayton Power and Light Company.