

BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of the)
Application of Dayton Power and Light for)
Approval of Its Electric Security Plan.)

Case No. 16-0395-EL-SSO

DIRECT TESTIMONY OF JOSEPH E. BOWRING
ON BEHALF OF THE INDEPENDENT MARKET MONITOR FOR PJM

1 Q PLEASE STATE YOUR NAME AND POSITION.

2 A My name is Joseph E. Bowring. I am the Market Monitor for PJM. I am the President of
3 Monitoring Analytics, LLC. Monitoring Analytics serves as the Independent Market
4 Monitor for PJM, also known as the Market Monitoring Unit. Since March 8, 1999, I have
5 been responsible for all the market monitoring activities of PJM, first as the head of the
6 internal PJM Market Monitoring Unit and, since August 1, 2008, as President of
7 Monitoring Analytics. The market monitoring activities of PJM are defined in the PJM
8 Market Monitoring Plan, Attachment M and Attachment M-Appendix to PJM Open
9 Access Transmission Tariff. I am a Ph.D. economist and have substantial experience in
10 applied energy and regulatory economics. I have taught economics as a member of
11 faculty at Bucknell University and at Villanova University. I have served as a senior staff
12 economist for the New Jersey Board of Public Utilities and as Chief Economist for the
13 New Jersey Department of the Public Advocate's Division of Rate Counsel. I have
14 worked as an independent consulting economist.

15 Q WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

16 A Dayton Power and Light Company (DP&L) is requesting Commission approval of their
17 electric security plan (ESP) for a term of January 1, 2017, through December 31, 2023.
18 DP&L's ESP includes a Distribution Modernization Rider (DMR) that would require
19 customers to pay, via a nonbypassable charge, \$145 million per year, or a total of \$1.015
20 billion over the seven year term. DP&L's ESP includes a Reconciliation Rider, initially
21 set at \$10.5 million per year, to pay for a shortfall in wholesale power market revenues
22 related to the costs of generation from the Ohio Valley Electric Corporation (OVEC)
23 costs, or a total of \$73.5 million over the seven year term, if unchanged. DP&L's ESP
24 includes a Clean Energy Rider that would require customers to pay, via a nonbypassable
25 charge, unquantified environmental compliance costs and decommissioning costs
26 associated with generation owned by DP&L.

1 The purpose of my testimony is to explain why approval of the DMR, the Reconciliation
2 Rider and the Clean Energy Rider would constitute a subsidy that is inconsistent with
3 competition in the PJM wholesale power market.

4 **Q PLEASE BRIEFLY SUMMARIZE THE DISTRIBUTION MODERNIZATION RIDER**

5 A The DMR would require the Ohio distribution customers of DP&L to pay, via a
6 nonbypassable charge, \$145 million per year, or a total of \$1.015 billion over the
7 proposed seven year term of the ESP, in order, according to DP&L, to maintain the
8 financial integrity of the company. The DMR is intended to offset the factors that
9 threaten the company's financial integrity. At least two of the four key factors cited in
10 DP&L's filing are related to the ownership of generation assets. The filing cites low
11 capacity market prices and low gas prices that reduce the profits of coal fired generation.
12 (Jackson at 7-8.)

13 **Q PLEASE BRIEFLY SUMMARIZE THE RECONCILIATION RIDER**

14 A The Reconciliation Rider would require all Ohio distribution customers of DP&L to pay
15 for a shortfall in wholesale power market revenues related to the costs of generation
16 from the Ohio Valley Electric Corporation (OVEC), initially set at \$10.5 million per year,
17 or a total of \$73.5 million if unchanged over the seven year term of the ESP, but subject
18 to true up to allow recovery of all such current and future costs in the event that the
19 costs were not fully recovered concurrently in distribution charges. The Reconciliation
20 Rider provides for DP&L "to recover the difference between its OVEC expenses and the
21 amounts that DPL received from selling that generation into PJM's day-ahead markets,
22 to the extent that those costs are not recovered through DP&L's Fuel Rider." (DPL
23 Amended Application at 5.)

24 **Q PLEASE BRIEFLY SUMMARIZE THE CLEAN ENERGY RIDER**

25 A The Clean Energy Rider would require all Ohio distribution customers of DP&L to pay,
26 via a nonbypassable charge, unquantified environmental compliance costs and
27 decommissioning costs associated with generation owned by DP&L. These costs would
28 be subject to after the fact true up to allow recovery of all such current and future costs
29 in the event that the costs were not fully recovered concurrently in distribution charges.

30 **Q WHAT IS THE CORPORATE STRUCTURE INCLUDING DP&L, DPL AND AES?**

31 A DP&L is a public utility and the principal subsidiary of DPL, an energy holding
32 company. DPL is a wholly owned subsidiary of AES, an international diversified power
33 generation and utility company. DP&L has an ownership stake in six coal fired

1 generating plants and a number of combustion turbines and diesel plants. DPL also
2 owns additional generation via its subsidiary, AES Ohio Generation. (Malinak at 22–23)

3 None of the DP&L generating units are subject to regulation by the Ohio Public Utility
4 Commission. The energy and capacity associated with the generating units are sold in
5 the PJM competitive wholesale power markets. The profits and losses from the
6 generating units belong to the shareholders and not the Ohio distribution customers.

7 **Q IS THE PROPOSED ESP CONSISTENT WITH COMPETITION IN THE PJM**
8 **WHOLESALE POWER MARKET?**

9 No. The proposed ESP is not consistent with competition in the PJM wholesale power
10 market. The elements of the ESP associated with the ownership of wholesale market
11 generation, including the DMR, the Reconciliation Rider and the Clean Energy Rider,
12 would constitute a subsidy to DPL generation. The proposed ESP would shift
13 responsibility for costs associated with DP&L's generation assets from the shareholders
14 to the distribution customers of the company. DP&L is requesting that all Ohio
15 distribution customers of DP&L be required to pay for costs associated with the
16 generation assets owned by DP&L. In addition, DP&L's position is that customers
17 should not receive a credit under the DMR even if the company experiences significantly
18 excessive earnings under the Ohio SEET test that result in part from the DMR.

19 Under the proposed ESP, DP&L would offer the energy and capacity from the OVEC
20 generation assets into the PJM markets. The proposed ESP would credit the market
21 revenues against the costs and charge the net costs to the ratepayers of DP&L. This
22 would provide an incentive to DP&L to offer the OVEC resources at less than a
23 competitive level.

24 Under the proposed ESP, DP&L would charge unquantified environmental compliance
25 costs and decommissioning costs associated with generation owned by DP&L without
26 any apparent offset. This would provide DP&L an incentive to offer the capacity of these
27 units into the PJM capacity market at less than a competitive level.

28 This type of subsidy is inconsistent with competition in the wholesale power markets
29 because of its price suppressive effects. With a guaranteed revenue stream of more than
30 \$145 million dollars per year and insulation from environmental risks, DP&L would not
31 need to recover its costs through wholesale markets as its unsubsidized competitors do.
32 DP&L would have an incentive to continue to offer noneconomic resources into the PJM
33 markets in a way that its unsubsidized competitors cannot.

1 Such effects would make it more difficult for generating units without subsidies to
2 compete in the market. Competition depends on units making competitive offers that
3 reflect their costs and on recovering revenues only from the markets and not from
4 subsidies. Such subsidies would negatively affect the incentives to build new generation
5 and would likely result in a situation where only subsidized units would ever be built.

6 **Q HOW DOES COMPETITION IN THE PJM WHOLESALE POWER MARKET WORK?**

7 **A** It is essential that any approach to the PJM markets and the PJM capacity market
8 incorporate a consistent view of how the preferred market design is expected to work to
9 provide competitive results in a sustainable market design over the long run. A
10 sustainable market design means a market design that results in appropriate incentives
11 to retire units and to invest in new units over time such that reliability is ensured as a
12 result of the functioning of the market. There are at least two broad paradigms that
13 could result in such an outcome. The market paradigm includes a full set of markets,
14 most importantly the energy market and capacity market, which together ensure that
15 there are adequate revenues to incent new generation when it is needed and to incent
16 retirement of units when appropriate. This approach will result in long term reliability
17 at the lowest possible cost.

18 The quasi-market paradigm includes an energy market based on LMP but addresses the
19 need for investment incentives via the long-term contract model or the cost of service
20 model. In the quasi-market paradigm, competition to build capacity is limited and does
21 not include the entire PJM footprint. In the quasi-market paradigm, customers absorb
22 the risks associated with investment in and ownership of generation assets through
23 guaranteed payments under either guaranteed long term contracts or the cost of service
24 approach. In the quasi-market paradigm there is no market clearing pricing to incent
25 investment in existing units or new units. In the quasi-market paradigm there is no
26 incentive for entities without cost of service treatment to enter and thus competition is
27 effectively eliminated.

28 I believe that the market paradigm is the preferred alternative and that DP&L's proposal
29 is not consistent with the market paradigm. Whatever the decision, it is essential at a
30 minimum that the choices about incentives and regulatory approaches be made with an
31 explicit understanding of the short run and long run implications of these choices for the
32 design of wholesale power markets and the interaction between wholesale power
33 markets and retail markets.

34 **Q PLEASE SUMMARIZE YOUR RECOMMENDATION.**

1 A Approval of the Distribution Modernization Rider, the Reconciliation Rider and the
2 Clean Energy Rider would constitute a subsidy which is inconsistent with competition
3 in the PJM wholesale power markets. Accordingly, the riders should be rejected for that
4 reason.

5 Q **DOES THIS COMPLETE YOUR DIRECT TESTIMONY?**

6 A Yes.

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing Direct Testimony of Joseph E. Bowring on Behalf of Monitoring Analytics, LLC, was served via electronic transmission to the persons listed below on this 21st day of November, 2016.

/s/ Jeffrey W. Mayes

Jeffrey. W. Mayes

General Counsel

SERVICE LIST

cfaruki@ficlaw.com
djireland@ficlaw.com
jsharkey@ficlaw.com
mfleisher@elpc.org
fdarr@mwncmh.com
mpritchard@mwncmh.com
Jeffrey.mayes@monitoringanalytics.com
Evelyn.robinson@pjm.com
Schmidt@sppgrp.com
dboehm@BKLawfirm.com
mkurtz@BKLawfirm.com
kboehm@BKLawfirm.com
jkylercohn@BKLawfirm.com
William.wright@ohioattorneygeneral.gov
Michelle.d.grant@dynegy.com
rsahli@columbus.rr.com
slesser@calfee.com
jlang@calfee.com
talexander@calfee.com
lhawrota@spilmanlaw.com
dwilliamson@spilmanlaw.com
charris@spilmanlaw.com
gthomas@gtpowergroup.com
laurac@chappelleconsulting.net
stheodore@epsa.org
todonnell@dickinsonwright.com
mcrawford@djflawfirm.com

joliker@igsenergy.com
orourke@carpenterlipps.com
bojko@carpenterlipps.com
ghiloni@carpenterlipps.com
mjsettineri@vorys.com
smhoward@vorys.com
glpetrucci@vorys.com
ibatikov@vorys.com
wasieck@vorys.com
william.michael@occ.ohio.gov
kevin.moore@occ.ohio.gov
mdortch@kravitzllc.com
tdougherty@theOEC.org
cmooney@ohiopartners.org
sechler@carpenterlipps.com
gpoulos@enernoc.com
rick.sites@ohiohospitals.org
amy.spiller@duke-energy.com
elizabeth.watts@dukeenergy.com
stephen.chriss@walmart.com
greg.tillman@walmart.com
mwarnock@bricker.com
dborchers@bricker.com
ejacobs@ablelaw.org
tony.mendoza@sierraclub.org
jdoll@djlawfirm.com
crtamm@classicconnectors.com

This foregoing document was electronically filed with the Public Utilities

Commission of Ohio Docketing Information System on

11/21/2016 3:15:20 PM

in

Case No(s). 16-0395-EL-SSO

Summary: Testimony Direct Testimony of Joseph E. Bowring on Behalf of the Independent Market Monitor for PJM electronically filed by Ms. Suzette N Krausen on behalf of Monitoring Analytics, LLC and Mayes, Jeffrey Mr. and Bowring, Joseph Mr.