THE BUCKEYE INSTITUTE

Interested Party Testimony on House Bill 6
Before the Ohio House Energy and Natural Resources Subcommittee on Energy Generation

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Chairmen Stein and O'Brien and members of the Energy Generation subcommittee, thank you for the opportunity to testify today on House Bill 6.

My name is Greg R. Lawson. I am a research fellow at **The Buckeye Institute**, an independent research and educational institution—a think tank—whose mission is to advance free-market public policy in the states.

The Buckeye Institute opposes government subsidies, pure and simple. Any subsidy given to one entity puts other competitors at a disadvantage. And using the power of government to disadvantage market competitors makes for bad public policy.

When Ohio imposed renewable energy mandates it unfairly subsidized wind and solar energy producers, making it more difficult for nuclear, gas, and coal plants to compete profitably. As electricity expert Dr. Joe Bowring has rightly **said**, "subsidies are contagious." The right response to contagions is elimination, not proliferation. That is why The Buckeye Institute has **long called** for the full repeal of Ohio's costly and **job-killing** Renewable Portfolio Standard (RPS) and other government subsidies that distort competitive markets.

Clean energy production does not need government subsidies. Ohio's desire for cleaner air is already driving market action. Even with Ohio's RPS distorting the electricity market, more than **11,000 new megawatts** of electricity enter Ohio largely through Ohio's bountiful natural gas resources, which burn cleaner than coal and have created more than 14,000 jobs without the benefit of government subsidies.

In the late 1990s, Ohio began its journey toward competitive, customer-centric electricity markets. As electricity rates have risen across the country, Ohio and other states with restructured wholesale markets have enjoyed cheaper electricity due to more competitive markets. Ohio's deregulated market has increased competition and given consumers more choices and control over meeting their energy needs. But it could have and should have been even better.

As The Buckeye Institute's **research** and **testimony** have explained, past policy stumbles—like the RPS—have hurt Ohio's energy market. Other potential policy pitfalls—such as the proposed bailout of the **Ohio Valley Electric Corporation** (OVEC) and the Zero-Emissions Nuclear Resource or ZEN program—were **fortunately** avoided.

Unfortunately, the Clean Air Program created by House Bill 6 presents another potential pitfall that Ohio should avoid.

Although described as "incentives," the policies in House Bill 6 are classic examples of government subsidies being used to prop-up declining businesses—the Davis-Besse and Perry nuclear power plants operated by FirstEnergy Solutions. House Bill 6 deals more broadly than just FirstEnergy Solutions, leaving leftover funds for other utilities to draw down, but everyone understands that First Energy Solutions, or whoever eventually buys the two nuclear power plants, will be the bill's primary beneficiary. And to the extent that House Bill 6 will create an "incentive" fund, it risks becoming a glorified slush fund with the real incentive being for companies to find new and creative ways to tap into that fund, threatening an unintentional slap in the face to businesses that risk their own capital without seeking money from the state.

To be fair, the Clean Air Program should save customers money relative to Ohio's problematic status quo that includes the RPS. But the program risks harming Ohio's competitive marketplace and laying the foundation for unforeseen cost increases down the road. And although some savings may accrue by eliminating the RPS and Energy Efficiency (EE) mandates, those savings will not be evenly distributed among customers. In fact, some consumers, especially residential consumers in certain utility markets, may end up paying more than they currently do.

Additionally, House Bill 6 seems to include language that could allow investor-owned utilities to retain indefinitely some RPS- and EE-related charges that are supposed to be eliminated. If that happens, the estimated savings to consumers may prove less than advertised.

Some have questioned whether subsidies for Davis-Besse and Perry are needed for national security reasons. But that question is better answered by the Federal Energy Regulatory Commission and PJM, rather than Ohio policymakers.

Some have also questioned whether closing the Davis-Besse and Perry plants will adversely affect the reliability of electricity in Ohio. Because Davis-Besse and Perry comprise only about six percent of the nuclear capacity in the PJM region, however, PJM anticipates no major issues if the plants close. In fact, PJM estimates that it would require approximately just **$24 million** to upgrade transmission lines on the grid to maintain reliable service in the region.

Then, of course, there is the legitimate question of job-losses suffered by closing the plants. The Buckeye Institute remains acutely sensitive to job-losses and their effect on families and communities. But that sensitivity only underscores the importance of getting Ohio's energy policy right—because bad energy policies that raise energy prices prevent and eliminate jobs across the state, not just in one community.

Ohio is consistently one of the top five energy-consuming states in the country. The manufacturing sector **provides** about 15 percent of Ohio's private-sector jobs and **produces** about one-fifth of Ohio's total private-sector economic output. Manufacturing uses a lot of electricity and is very sensitive to electricity prices. As The Buckeye Institute's analysis of renewable energy mandates **discovered**, even small increases in energy rates can cost thousands of jobs and hundreds of millions, or even billions, of dollars in economic output.

Finally, there is the question of fundamental fairness posed by subsidizing unprofitable power plants at taxpayer and consumer expense. Of the 18 nuclear generators in the 13-state regional market of which Ohio is a part, **15 have annual surpluses**, or profits (see Table 7-42 in the **2018 State of the Market Report for PJM**). The three that operate at a loss are Three Mile Island, which has never fully recovered from its infamous disaster 40 years ago, and the Davis-Besse and Perry nuclear plants. The unprofitability at these uncompetitive plants suggests that something is wrong there. And although job-losses at these plants remains a legitimate concern, it is fair to ask why Ohio utility customers should have to pay more each month to make up for a history of poor plant operation.

Should the General Assembly move forward with the policies proposed in House Bill 6, some assurances seem appropriate in order to protect Ohio consumers from the adverse effects of contagious subsidies. Policymakers should take steps to ensure that the subsidies do not merely line the pockets of whoever ultimately owns the subsidized facilities, and to prevent other utilities, especially profitable ones, from reaching into ratepayers' wallets for extra funds when they should be investing their own capital in clean energy. Accordingly:

- The Clean Air Program should have a sunset provision;
- The Clean Air Program should have a mandated annual audit to measure its effectiveness;
- The Clean Air Program should have a hard cap on how long utilities may impose charges related to ongoing RPS or EE expenses incurred prior to House Bill 6;
- The Clean Air Program should have an annual audit of any RPS or EE expenses that are charges above and beyond the surcharges outlined in House Bill 6;
- The Clean Air Program should have an "Art Modell" provision that requires any company receiving funds generated by the program to pay those funds back upon selling their assets; and that prevents plants from receiving any additional funds under new ownership without an express vote of the legislature after the sale;
- Subsidies under the Clean Air Program should cover only shortfalls and not generate a profit paid-for by ratepayers; and
- The Clean Air Program should prevent double-dipping, by including provisions clarifying that utilities that obtain above market rates for generation due to any programs implemented by the Federal Energy Regulatory Commission or PJM may not obtain revenues from the Clean Air Program.

Interfering in competitive markets is rarely done without good intentions. The effort to save jobs in the communities around the Davis-Besse and Perry power plants is certainly understandable and well-intended. But government interference and costly subsidies inevitably lead to higher costs and fewer created jobs, making Ohio poorer and weaker, not wealthier and stronger. Instead of creating another subsidy program, Ohio should eliminate the RPS and pursue free-market solutions that will keep Ohio electricity prices low and its markets competitive.

Thank you again for the opportunity to testify today. I am happy to answer any questions that the Committee may have at this time.

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About The Buckeye Institute

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