



THE BUCKEYE INSTITUTE

**Interested Party Testimony on House Bill 6
Before the Ohio Senate Energy and Public Utilities
Committee**

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Chairman Wilson, Vice Chairman McColley, Ranking Member Williams, and members of the committee, 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.

As I said when I **testified** before the Ohio House Energy and Natural Resources Subcommittee on Energy Generation, and as this Committee knows, 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 Standards (RPS) and other government subsidies that distort competitive markets.

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 natural gas resources, which burn cleaner than coal and have created more than 14,000 jobs without the benefit of government subsidies. Additionally, many major private companies, like Amazon and Google, are expanding their use of clean energy, and that expanded use and increased demand will drive the development of clean energy resources naturally, without needing heavy-handed government intervention.

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 restructured 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 mistakes—such as the RPS—have hurt Ohio’s energy market and economy by requiring businesses and consumers to pay more for energy. Other potential policy pitfalls—like the proposed bailout of the **Ohio Electric Valley Corporation** (OVEC) and the Zero-Emissions Nuclear Resource or ZEN program—were **fortunately** avoided in previous General Assemblies.

Unfortunately, the current version of House Bill 6 presents other pitfalls that Ohio should avoid—the creation of a new non-market based subsidy, the Clean Air Program, and the last-minute inclusion of an OVEC bailout.

Although described as incentives, the policies in House Bill 6 are classic examples of government subsidies being used to prop-up individual businesses—the Davis-Besse and Perry nuclear power plants operated by FirstEnergy Solutions. House Bill 6 went through a number of iterations during the legislative process in the House of Representatives. At present, it deals more broadly than just FirstEnergy Solutions, leaving potential leftover funds for other energy companies to draw down. But the reality remains that First Energy Solutions, or whoever eventually buys the two nuclear power plants, will be the primary beneficiary of this policy.

To be fair, the changes made to the Clean Air Program in the final version of House Bill 6 represents *some* improvement from the initially introduced version. Some customers may save some money relative to Ohio's problematic *status quo* that includes the expensive RPS and Energy Efficiency mandates. But those savings are not guaranteed and a number of issues remain, including recovery of legacy RPS and Energy Efficiency costs, the cost of future Energy Efficiency programs authorized by the bill, and ongoing costs to support OVEC, which could stick customers with additional charges beyond the Clean Air Program's \$198 million per year price tag.

Subsidies, as we have **explained** before, only tend to ever go in one direction: up. Thus, although savings under the Clean Air Program may or may not actually materialize, it is all but assured that consumers could save far more money if Ohio simply repealed the existing mandates entirely and did not replace them with any other special surcharges.

Some have questioned whether subsidies for Davis-Besse and Perry are needed for reasons ranging from national security concerns to worries that the free market has not rightly valued all forms of baseload generation. Even if valid, these concerns would be better addressed by the Federal Energy Regulatory Commission and PJM, rather than state policymakers.

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

Others fear that losing these two nuclear plants will lead to a natural gas monopoly and future price hikes as the natural gas cabal flexes enhanced market muscle. This fear is unfounded. PJM has already told this Committee that the market has become more, not less, fuel diverse in the wake of the shale boom. Natural gas plants still have to compete with each other and with other types of plants, including 16 other PJM nuclear power plants. No natural gas monopoly lurks on the horizon.

The more legitimate concern centers on job-losses that will be 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 in our **reports on the RPS** even small increases in energy rates can cost thousands of jobs and hundreds of millions, or even billions, of dollars in economic output.

If the General Assembly moves forward with the policies in House Bill 6, then some assurances seem appropriate in order to protect Ohio consumers from the adverse effects of "contagious subsidies."

First, policymakers should not risk potentially raising taxes on Ohio families and businesses by imposing a new energy fee on them in addition to fees for the existing energy mandates.

Second, policymakers should 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. Although the final House version of House Bill 6 provides for an external program audit by a third party, this provision should also require the PUCO, and any necessary representative, to audit the financial records of the nuclear plants before they may enter the Clean Air Program. If the nuclear plants are making money, they should not enter the program and any surcharges should be rebated to customers. If the plants require a smaller subsidy to remain operational, they should receive a smaller subsidy with the difference rebated to customers, similar to the mechanism for the proposed OVEC subsidies.

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 understandable and well-intended. But government interference and costly subsidies inevitably lead to higher costs and fewer jobs, making Ohio poorer and weaker, not wealthier and stronger. Instead of creating subsidy programs like the OVEC bailout and the Clean Air Program, Ohio should eliminate the RPS and Energy Efficiency mandates while pursuing true 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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