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Ohio House Public Utilities Committee

HB-239 National Security Resources

Chairman Seitz and members of the Ohio House Public Utilities Committee, I'm Bill Siderewicz, President of Clean Energy Future (CEF). It is a pleasure to be with you today to discuss two (2) coal plants owned by OVEC. I will explain why the proposed \$ 4-8 Billion bailout of the antiquated OVEC coal plants is an impediment to new private sector investment for gas-fired plants in Ohio, and why such proposed legislation should be rejected !

In neighboring PA, there is similar debate about what, if anything, should be done about uneconomical and vintage nuclear/coal plants within a functional, open and competitive (PJM) electricity marketplace. The editorial board of The PennLive News (Harrisburg) said it best on June 1, 2017 :

“It’s Economics 101 : Markets (free) operate best when supply and demand determine price. As soon as someone puts a thumb on this scale, whether it be through regulation, price supports or taxes or surcharges, you get inefficiency which can stifle innovation and force consumers to pay more.”

HB -239 is not simply putting a thumb on the economically balanced scale, it's equivalent to putting both hands on the scale.

Before going into OVEC details, I am pleased to report that by the end of 2017, we will have successfully completed five (5) new modern gas-fired power projects in Ohio representing \$ 4.5 Billion of private investment, 1,000's of new jobs and low-cost electricity to Ohioans. In the coming years, Ohio will need at least fifteen (15) more of these similar sized gas-fired facilities (\$ 15-17 Billion investment) to make up for Ohio's obsolete coal/nuclear power plants. It is this scale of private sector expansion and the added electricity cost-saving benefits to ratepayers that is at risk via HB-239 !

\$ 4-8 Billion Dollar Size of OVEC Bailout: The two (2) OVEC coal plants were built in 1955 and are effectively reaching the end of their useful lives. The economics surrounding the OVEC plants are described in the company's 2015 Annual Report (Exhibit A). Page 2 says that OVEC's 2015 cost to make electricity is about 6.44 ¢/kwh, meaning the cost in 2017 is more like 6.8 cents/kwh. This compares to a typical non-utility modern gas-fired plant that can today make electricity for 3.2¢/kwh. In order for OVEC to compete in today's PJM energy and capacity markets, OVEC needs a BAILOUT or SUBSIDY for the noted cost difference of 3.6¢/kwh. This is a \$ 390 million/yr BAILOUT or \$ 4 Billion over 10 years (Exhibit B).

OVEC Pollution (Kyger Creek) in Ohio : How much pollution comes from antiquated coal plants ? Local pollution and associated complaints in SE Ohio were so significant that AEP paid off the

local citizens of the coal plant's host community, at a total cost of \$ 20 million, to have them **all** leave Cheshire, OH (Exhibit C). An OVEC Bailout would in fact perpetuate "dirty" Ohio power generation, since coal plants have the following characteristics vs. modern same-sized gas-fired plants :

- Use 300 % more water
- Emit 100 % more CO2
- Leave behind ash ponds contaminated with arsenic, lead , mercury and hexavalent chromium to impact both nearby groundwater and surface waters
- Emit magnitudes more : SOx, NOx and particulate matter

Is this the kind of business that now somehow deserves a multi-\$ Billion Bailout from Ohio's ratepayers ?

National Security: Bailing out OVEC has absolutely nothing to do with national security.

Instead, national security is simply a clever label devised by the utility owners to divert one's attention from the underlying problem. OVEC was designed and built to provide power to the U.S. Government's nuclear program. In exchange for building these two coal plants, the owners received guaranteed revenues from the Government for the period 1955 to 2003 a 48 year period. During this time, all plant costs were recovered and each of the utility owners profited handsomely. In 2003, when the PPA (power purchase agreement) expired, Ohio was then a de-regulated power generation market and generation plants, including OVEC, had to compete in a free and open marketplace called PJM. Owners of OVEC assumed that they knew the PJM marketplace and decided to invest even more capital into OVEC, in the form of more air pollution control dollars in 2011-13, thinking coal would be economical long term. During this

same 2011-13 time period is when nearly everyone else in the power industry (including our firm CEF) recognized natural gas was a far superior power generation choice. In essence OVEC owners guessed wrong in 2011-13.

Most recently in N.J., the utility of PSE&G (\$ 23 B market capital) announced on May 30, 2017 (Exhibit D) that it is closing its 57-year old (5 yr. younger than OVEC) Mercer coal plant in PJM, because as their CEO Ralph Izzo stated:

“We made a bet on high gas prices” and “We got that wrong”

PSE&G invested \$ 100's of millions in new air pollution control equipment in 2011 (just like OVEC did in 2011) and they made the wrong choice that coal would be more economical than natural gas. Closing old and inefficient coal plants is exactly what OVEC owners should be doing, vs. fabricating a story that through a multi-\$ Billion Bailout that OVEC has earned a reward for its past service to the nuclear industry. The correct solution here is a Chapter 7 or 11 proceeding for OVEC.

Utilities Already Walked Away with OVEC's Equity: Virtually every utility company in the U.S. funds its capital needs with about 50% +/- debt and 50% +/- equity. The attached Exhibit E shows such a capital ratio for AEP. When one reviews the OVEC Annual Report there are some shocking financial revelations. The first is that there is almost NO EQUITY in the company. Its balance sheet is 98.8 % debt. The OVEC owners have quietly and effectively removed all of the equity out of OVEC, and have left a stripped down “financial carcass” grossly overburdened with loans. What this means is that the proposed multi-\$ Billion OVEC Bailout has only one purpose: pay back lenders and note holders who have made ill-advised loans to fund various

OVEC construction projects in previous years. OVEC owners have effectively run both coal plants into the ground and want the public ratepayers to pay for the resultant mess.

Who Will Pay for an OVEC Bailout ? : The OVEC legislation is strangely QUIET on how/who will pay the \$ 4-8 Billion Bailout, no doubt by design. There are logically two (2) Options for payment :

Option 1 : Everyone Shares the Pain : The simplest solution is to create a non-by-passable rate adder to every customer in Ohio based on the number of MWhs they use in a year. Who will protest the loudest because of this unwanted financial burden correct, almost every single commercial and industrial customer will stampede Columbus over this \$ 390,000,000/year handout, which will make every business entity less effective in markets where they have to compete to survive. Examples of such companies : Timken Steel, BP/Husky, Toledo Refining, GM, Jeep, Walmart, etc.

Option 2 : Downward Economic Death Spiral: In Ohio, electricity customers have the ability to freely purchase low cost electricity from an entity other than their local high-priced utility co., this is called “Customer Choice”. Industrial customers elect Customer Choice quite readily to save money and remain cost competitive with the sale of their own products. Commercial customers do the same. However, far fewer residential customers have yet to understand that Customer Choice is available to them, so fewer residential customers have yet to switch to cost-saving Customer Choice. Within Exhibit F are two pie-charts illustrating all 3-classes of electricity customers. The chart on the left depicts an approximation of what percentage of the three customer classes have elected Customer Choice.

The OVEC Bailout will be funded by those electricity customers who have not yet elected Customer Choice. This is the **FATAL FLAW** in the OVEC Subsidy/Bailout logic. If those customers (shown in yellow highlight) are the ones paying for the multi-\$ Billion Bailout, they will notice their electric bills increase, if HB-239 were to become law. What happens to customers who realize their electric bill is going up because they are not using Customer Choice? The simple answer is that more customers will switch to Customer Choice to: (i) avoid the OVEC Surcharge and (ii) obtain a lower baseline rate for electricity. The pie-chart to the right in Exhibit F shows how the number of customers who will pay the OVEC Bailout financial tab will shrink with time. As a result, the Bailout costs are spread over fewer and fewer customers, which will cause the OVEC Surcharge to grow even faster for each customer that is being charged. The net result is again more and more customers switching to Customer Choice. In the end, who's left to pay the OVEC Surcharge? My 37 years in the electricity generation business tells me it's the residential customers who may not be well informed and have fewer than average financial resources just the kind of customer Ohio's utilities target for such a program. those who are neediest and have no organized lobbying power to fight back. This downward ratcheting effect eventually pushes the full Bailout costs onto fewer and fewer customers and thus the appropriate title "Downward Economic Death Spiral".

For any of the Committee members who have played the "Old Maid" card game, this is exactly what the OVEC Plan is a deliberate bailout plan to leave the "little guy" holding the "Old Maid" card being dealt by the utilities from a stacked deck.

OVEC Owners Refuse to Use Their Own Money : Exhibit G is a graph showing the amount of CASH dividends AEP, First Energy and DP&L (AES) hand out to their investors each year.

That's correct, about \$ 1.8 Billion/year of cash. These same utilities are now at the public's door step asking that ratepayer hand them \$ 390 million/year as an OVEC Bailout ! This level of Bailout exceeds the average \$ 350 million per year ZEN (HB-178) nuclear Bailout !! In fact, when the OVEC Bailout (\$390mm/yr) and the ZEN Bailout (\$ 350 mm/yr) are added together they equal the value of the **0.5 % SALES TAX** hike (\$740 mm/yr) that the **Legislature has already rejected**. OVEC and ZEN are nothing more than simply new OHIO TAXES !! These same utilities appear to be shameless in that they are collectively flush with their own cash but refuse to use it for their own needs.

HB-239 is a highly sophisticated yet fraudulent scheme to make-up for poor decision making by a collection of utility companies such that financial consequences are placed on the back of those who can least afford to pay (i.e., Bailout payback Option 2, herein).

Any subsidy/bailout paid to OVEC would be a blatant violation of two (2) free-market principles.

“Public Trust Principle”: Poll after poll affirm by more than 7:1 margins, that the public wants Customer Choice and rejects utility Bailouts (like OVEC). It seems Legislators have an obligation to meet the needs/wants of their constituents.

“Open Market Competition”: Non-utility co.'s invested Billions in Ohio to build new

low-cost gas-fired electricity plants, to make cost-saving (\$3 Billion/yr) Customer Choice work for everyone.

Investments have been made in good faith that Ohio is/remains an open competitive marketplace. The OVEC Bailout undermines this very principle of open markets in Ohio, and is equivalent to trying to “put just some of the tooth paste back in the (de-regulation) tube.”

The facts are very clear, Ohio’s vintage coal and nuclear plants will all eventually succumb to unavoidable economics that force their retirement. Ohio has 23,300 MW of coal firing (both closed and open) and 2,130 MW of out dated nuclear power that will need to be replaced. To date, about 10,200 MW of modern gas-fired generation is built or in advanced development in Ohio. In the coming years, another fifteen (15) large scale gas-fired projects will be needed. The non-utility industry will respond to this need and bring the needed \$15-17 Billion of new investment to Ohio. However, that private investment will come only if investors perceive that Ohio remains an open and free market place for power generation. If the OVEC Bailout were to become law, the Legislature would be complicit in sending a loud and clear signal to the financial marketplace that Ohio’s electricity market is NOT OPEN and FREE, but is instead is subject to subsidies that destroy a free and open market for competition. An erosion of Ohio’s functional power generation market will stop new non-utility investment, that happens to be the prime engine driving annual Customer Choice savings of \$ 3 Billion/year to Ohioans (OSU Study ; Jan. 2017).

Within House testimony for HB -178, Dr. Hill of the Ohio State University testified that utilities have two objectives :

“ First, is to use the power of either the PUCO or the Ohio Legislature to mandate the purchase of expensive existing Ohio power plants first and to ensure that competitive market forces do not force them to either write-down the asset value of the generating units, protecting their stock values, or to close the plants.”

“ The second is to upend, circumvent and destroy the competitive electricity generating market managed by PJM Interconnect.”

The neatly packaged and crafted OVEC story is exactly what Dr. Hill was referring to.

For all of the reasons noted herein, **HB-239 should be rejected.**