

Sub. HB 239 Proponent Testimony
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Chairman Seitz, Vice Chair Carfagna, Ranking Member Ashford, and members of the House Public Utilities Committee, thank you for the opportunity to present testimony in support of Sub. House Bill 239.

I have represented AEP Ohio on regulatory issues in Ohio for more than a decade and worked with the Ohio Attorney General's office and the Public Utilities Commission of Ohio (Commission) for more than 15 years prior to that.

AEP Ohio controls approximately 20% of the Ohio Valley Electric Corporation (OVEC) output, through a purchase power agreement known as the Inter-Company Power Agreement (ICPA).

The proposed legislation has no effect on retail shopping and is consistent with the hybrid form of deregulation adopted in Ohio through passage of SB 3 and SB 221. In fact, every iteration of the Public Utilities Commission of Ohio (Commission) – led by every Chairman since SB 221 was passed – has permitted OVEC cost recovery through the Electric Security Plans (ESPs) of AEP Ohio: *ESP I* (2009-2011), *ESP II* (2012-2015) and *ESP III* (2015-2018). In its most recent decision on this topic in the *ESP III* case, the Commission found that OVEC cost recovery would provide a valuable cost-based hedge against volatile market prices and approved recovery of the net OVEC cost impacts (*i.e.*, costs under the purchase contract less market revenues from liquidating the output into wholesale markets); the Commission found that it would have rigorous oversight of the costs through full information sharing and a robust audit process to ensure that only prudently-incurred costs are recovered in retail rates.

The approach reflected in Sub. HB 239 would convey value to Ohio utility customers by providing a stable cost-based hedge against volatile market prices and would over time provide the potential for sustaining a financial benefit to customers during future periods where market prices exceed the ICPA purchase price. And that is the very same approach that would be codified upon passage of Sub. HB 239 for each of the electric distribution utilities.

Contrary to the assertions made by some opponents of Sub. HB 239, recovery of OVEC costs cannot be considered as additional stranded costs under SB 3's transition to deregulation. OVEC was never in utility rate base and the subject power purchase agreement (*i.e.*, the ICPA) was re-executed in 2011 – well after SB 3's transition period. Further, OVEC has been exempted from corporate separation out of necessity because AEP Ohio has been unable to divest the OVEC contract. In short, this proposed legislation would recognize the highly unique nature of the OVEC assets and codify a long-term solution for this legacy asset given that it was not part of SB 3's stranded cost recovery and corporate separation has not been achievable.

AEP Ohio supports amendments being considered in Version 6 of Sub. HB 239. While a number of changes have been made to address concerns raised by some opponents to the legislation, I would like to briefly address four of the more significant amendments. First, a cap has been included that guarantees customer rate impacts will be modest (lines 1036-1050). Second, the cost recovery will expire at the end of 2030 absent extension by the General Assembly (lines 1051-1054). Third, there will be a triennial audit to help ensure that only prudently-incurred costs are recovered (lines 1031-1035). Fourth, added return on investment and debt costs remaining upon premature retirement are both excluded from cost recovery (lines 396-399). The amended version of the legislation includes each of these pro-consumer changes and is reasonably responsive to concerns voiced by opponents.

The OVEC plants were originally built to serve vital national security interests and OVEC continues to serve the ongoing decommissioning operations at the Piketon plant in order to meet rigorous service reliability standards needed to avoid a power interruption that could present serious safety concerns. Operation of OVEC has provided substantial benefits to Ohio retail customers in the past and adopting this legislation will enable future benefits. Annually, OVEC provides over \$39 million of economic benefit in its six county region and over \$62 million of economic benefit in Ohio (see attached study). Sub. HB 239 should be adopted as a fair-minded solution to follow through on the long-term decisions made when the OVEC plants were built to serve the national security of the United States.

I am happy to respond to any questions you may have.