



**Proponent Testimony - Ohio House Bill 247 (Romanchuk)
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Chairman Cupp, Vice-chairman Carfagna, Ranking Member Ashford and members of the House Public Utilities Committee, my name is Trish Demeter and I'm the VP of Policy - Energy for the Ohio Environmental Council Action Fund. Thank you for allowing me to give proponent testimony on HB 247.

Ohio has had a long, complicated history with utility regulation. For the past 17 years, we've been moving towards a deregulated framework for the generation of electricity, after undergoing electric sector restructuring in 1999. This policy has largely delivered on what it promised, which was to use competition among wholesale and retail providers of electricity to bring the price of electricity down, and to foster innovation in technology, business models, and market structures. Under this regulatory framework, customers have been able to exercise more choice in how and from whom they receive their supply of electricity. Millions of Ohioans have elected to receive service from a competitive retail supplier, and some have exercised their choice to install an on-site generation system such as a rooftop solar system, or a cogeneration system. Some Ohioans have even cast a ballot in favor of a community aggregation plan, and others still have entered directly into long-term contracts with project developers to power their facilities with renewable power.

But the path towards deregulation has been littered with obstacles along the way, and some of these obstacles have caused detours that have steered Ohio off course. House Bill 247 would, if enacted, clear the path moving forward, and provide the necessary clarity for innovation and private investment to thrive even more in Ohio.

What are the obstacles that have led Ohio a bit astray? In the years that followed the enactment of Senate Bill 3 in 1999, Ohio utilities spun off the generation portion of the business to different corporate entities, but maintained parent companies that owned both their competitive generation business and their fully regulated distribution utilities. With the exception of Duke Energy, all the parent companies of

these distribution utilities still have a subsidiary(ies) in Ohio that are involved in the electric generation business. While Ohio law stipulates that there be proper firewalls between the subsidiaries, the law did not require divestiture of all generation businesses. And because of this, there remains a monetary interest between the two types of utility businesses. This creates a myriad of problems, manifested through rising riders and fixed charges on customers' bills, and the various requests for bailouts that have emerged over the past several years.

HB 247 takes important steps forward in Ohio's energy policy by: First, making the distribution utilities agnostic as to where the electricity supply comes from by finally achieving full corporate separation, and; second, eliminating what has become the default process for rate-setting, which has led to unfair charges on consumers that provide no direct or indirect benefit to them.

So why is this bill good for the environment? Realistically, there are quite a few regulatory frameworks that can be structured to achieve positive environmental outcomes, such as pollution reduction, and a more diverse electric portfolio. For example, in a fully regulated framework, resource planning can lay out enforceable timelines for when certain generating units will retire, how much demand will be met through efficiency, and how many megawatts of new renewable power will be built. However, research indicates that competitive markets for the supply of electricity and capacity are encouraging cleaner, more efficient resources to come online, and can stem harmful air pollution at a pace necessary to address immediate and long-term public health and environmental damage.

The OEC Action Fund supports HB 247 because it will provide necessary clarity for the underlying regulatory structure that can enhance Ohio's cleaner energy future in three key ways:

1. **Ohio citizens can truly become empowered customers.** Before deregulation, customers were largely passive in how they interacted with their utilities, but with more options and advances in technology, customers are evolving into active managers of their energy needs. The electric grid is generally moving away from centralized power stations and towards distributed resources, and from a one-way grid to an integrated network. Because of innovation, customers can now be energy producers, and providers of service to the grid. Distributed generation, energy efficiency improvements, advanced metering, electric vehicles, battery and thermal storage technologies, demand response programs, and energy management tools such as smart thermostats are all

providing more options for customers. Given the distribution utility's inherent preference for the electricity produced by their unregulated affiliates, and how rate-setting has occurred in recent years at the PUCO, there are inherent disincentives for utilities to fully embrace all the efficiency and clean energy innovations happening on the customer's side of the meter. HB 247 will help remove some of these disincentives.

2. **A competitive marketplace can more quickly deploy cleaner, more creative solutions, and likely at a lower cost.** At the heart of the debate over Ohio's regulatory framework is this question of risk, and who takes it on, who earns when the risk is rewarded, and who pays when the risk causes losses? The traditional utility business model and traditional rate-making places the risk on customers, because guaranteed rates of return for shareholders are baked into the utility's cost of service. As long as the utility could make the case to regulators that investing in a capital asset was used and useful, and the costs incurred were prudent, the customers would be there to cover it in their rates. In fact, there's been a long-standing theory in energy policy circles that posits that traditional utilities will spend too much on capital investments precisely because their allowed rate of return is tied to how much they invest. However, under a restructured scenario, and in regional organized markets, such as the one Ohio participates in - PJM Interconnection - the cutting edge technologies are investments in lower capital costs, thus likely creating a disincentive for incumbent utilities to pursue emerging technologies such as energy efficiency, demand response, battery storage, and small distributed energy systems. Allowing competitive businesses to pursue these options for customers, and to work directly with customers to deploy them, will lead to quicker deployment, and possibly more uptake by consumers. HB 247 provides the necessary clarity in order to enable entrepreneurs and customers to drive quick, creative innovation.
3. **Ohio can still retain its electricity portfolio policy.** Decision makers who would be concerned about transitioning too quickly in the competitive market for electricity generation can still set standards for renewable energy and energy efficiency. Ohio's renewable and efficiency portfolios have co-existed with our restructured framework since 2008, and send important market signals that Ohio intends to harness the economic and environmental benefits of a more diverse, and less wasteful, electric sector.

This legislation will add key elements to state policy that will enhance Ohio's ability to harness all current and future benefits of clean energy market trends.

Consider:

- In 2015, global capacity for renewable energy surpassed that of coal for the first time ever;¹
- About half a million solar panels were installed *every day* around the world last year;²
- Global energy efficiency improvements are flattening demand for electricity, but per capita income growth has not been effected;³
- In the United States, the cost of solar projects have come down by 70% in the last decade⁴, largely due to high demand and advances in solar technology.

This national transition is multi-faceted, and already occurring in states that have restructured its electric sector. Such trends are expected to continue, and customers of all shapes and sizes are increasingly participating in, and driving these trends. HB 247 will provide a regulatory framework that encourages these trends, and will press distribution utilities to adapt and modernize.

Make no mistake, the OEC Action Fund strongly believes that an essential element to our state's regulatory framework is healthy distribution utilities who are earning returns on providing services to customers, and improving and maintaining the distribution grid in order to be ready to integrate innovations happening on the customer's side of the meter. But, there is still evolution needed in order for the distribution utility to truly embrace energy efficiency and distributed energy resources such as small renewable projects, battery storage, etc. HB 247 helps set the stage for this evolution.

Change is never easy, but we've been living in a quasi-deregulated system for far too long. While Ohio has this long, complicated history with energy, it also has a long, storied history of being an innovator, a creator, and a builder. HB 247 will lay the groundwork for Ohio to continue to innovate, create and build a clean energy economy that future generations will benefit from.

Again, thank you for allowing me the opportunity to speak on behalf of HB 247. I'd be happy to answer any questions that you may have.

¹ International Energy Administration (IEA)

² <https://www.iea.org/newsroom/news/2016/october/iea-raises-its-five-year-renewable-growth-forecast-as-2015-marks-record-year.html>

³ <https://www.iea.org/publications/freepublications/publication/MediumTermEnergyefficiencyMarketReport2015.pdf>

⁴ <http://www.seia.org/research-resources/solar-industry-data>