Ohio House Public Utilities Committee
The Honorable William Seitz, Chair

Testimony In Opposition to
House Bill 178: Zero-Emissions Nuclear Resource (ZEN) Legislation

Presented By:
William Lee Davis, CEO
Lightstone Generation LLC
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Good afternoon Chair Seitz, Vice Chair Carfagna, Ranking Member Ashford and distinguished members of the Ohio House Public Utilities Committee:

My name is Lee Davis and I am the CEO of Lightstone Generation LLC ("Lightstone"). I very much appreciate the opportunity to respond to you on this important issue.

Before I explain Lightstone's opposition to House Bill 178, let me briefly introduce my company. Lightstone was formed in the fall of 2016 and is a 50/50 joint venture between two private equity investors: ArcLight Capital Partners LLC ("ArcLight") and The Blackstone Group ("Blackstone"), two of the largest and most active private equity investment companies in the world. With an approximate combined $70 billion in equity investments globally, Blackstone and Arclight provide a meaningful source of investment capital that can facilitate future expansion of the Lightstone portfolio in Ohio, and indeed through PJM (the regional transmission organization that coordinates the wholesale electricity market in Ohio and in 12 other states) and across the United States.

In January, Lightstone finalized its $2.2 billion purchase of four AEP power plants, three in Ohio and one in Indiana. The proceeds used to purchase the portfolio were raised directly by Lightstone's sponsors, and involved absolutely no funding from any ratepayers or taxpayers. Our Ohio plants are located in Pickaway County, Washington County and Gallia County and directly employ over 300 workers, pay $11.7 million per year in property taxes, and additionally spend roughly $270 million annually to safely and efficiently operate our Ohio plants.

Lightstone's new portfolio is the seventh largest merchant power fleet in the PJM footprint, providing more than 5,200 megawatts ("MW") of generating capacity to the PJM market, enough to power approximately 3.5 million homes. We receive all of our revenue through the deregulated competitive wholesale marketplace, and receive no revenue through any form of regulated revenue or out-of-market subsidy.

We consider Ohio to be an attractive place for both investment in generation and industry, in large part because of Lightstone's perception that the risk of potential interference in market structure that could deter its ability to receive a fair return on its business is low. A good portion of our investment rationale simply rests on Ohio's long-standing and strong support of competitive electricity markets.

Indeed, the policies enacted by the Ohio legislature in the late 1990s created an environment conducive to significant investment in power generation from non-utility companies that compete in the wholesale electricity market. These companies, including Lightstone, manage risk, tend to their balance sheets and focus to stay competitive in a market with low commodity prices. At Lightstone, we must constantly strive to be more efficient and keep costs as low as possible to be competitive. However, to support additional large-scale investments in Ohio, Lightstone must be convinced that a favorable environment exists for achieving a fair return from such investment. We believe a fair market environment with a level playing field will provide enough transparency and certainty for investors, operators and industrial customers alike to plan for future growth. Any deviation from this type of environment should be carefully considered because it may have the unwanted consequence of crippling uncertainty.

Lightstone strongly opposes House Bill 178 because it would provide preferential subsidies to fund already unprofitable generation in Ohio. Any out-of-market subsidy provided to any generator will, in our view, unfairly place additional economic burdens on Ohio voters, large customers, competitive generators and current and future investors. These burdens will result in lower revenue for generators, and much higher cost to the very industrial, commercial and residential consumers that make Ohio one of the top industrial states in the nation. We oppose these subsidies because they create harmful economic burdens on the companies that can otherwise help grow Ohio. These burdens manifest themselves in an insidious form of taxation that effectively creates a transfer of wealth from customers, industry and investors to the shareholders of one company.

Subsidies favoring one company or select group of companies ultimately put undesired pressure on other industrial companies in Ohio and their ability to remain in business, to pay taxes and to retain jobs.

Furthermore, Lightstone properly established its balance sheet at the outset of operations in Ohio with a conservative, and prudent, debt structure. FirstEnergy's generation subsidiary, on the other hand, is not properly capitalized. What House Bill 178 proposes to do is in effect penalize companies with prudently managed balance sheets while rewarding FirstEnergy for its inability to prudently manage its undercapitalized subsidiary balance sheets. This undercapitalization not only results in equity pressure to FirstEnergy's subsidiary, but also places the burden on this Committee, FirstEnergy's customers and the unsubsidized generation in the state to solve FirstEnergy's inability to properly fund its subsidiary. Pancaking a rushed, last-minute subsidy on top of a poorly capitalized subsidiary is akin to rearranging the deck chairs on the Titanic as we don't believe it actually prevents that subsidiary from a restructuring.

In close, I am quite proud of Lightstone's Ohio based power plants. We predicated our $2.2 billion investment on the belief that Ohio remains a fair, balanced place to do business. The success of this investment depends on the continuation of balanced energy policies. Notwithstanding low commodity price conditions, we continue to look for opportunities to invest in Ohio and other PJM states. But any decision to make future investment will require fair competition. We cannot invest if the environment is biased toward one particular company or one particular type of power plant. I urge you to maintain Ohio's strong support for fair competitive markets and respectfully ask for an unfavorable vote on House Bill 178.