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On Behalf of Natural Resources Defense Council (NRDC)

Written Opponent Testimony to Ohio House Bill 178
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Chairman Seitz, Vice Chair Carfagna, Ranking Member Ashford, and Members of the House Public Utilities Committee: I am James F. Wilson, Principal, Wilson Energy Economics. Thank you for the opportunity to submit this written testimony. In my testimony today I would like to leave you with two main points:

1. House Bill 178 is not similar to recent major policy actions in New York and Illinois. Those states enacted Zero Emission Credit ("ZEC") programs in the context of much broader policy packages that were primarily focused on achieving very robust state renewable energy and energy efficiency targets in the 2025-2030 time frame. HB 178 is not that; indeed Ohio's policies and targets regarding renewable energy and decarbonization are moving in the opposite direction.
2. Instead, the action proposed in House Bill 178 is similar to earlier efforts by FirstEnergy to obtain subsidies for its inefficient coal and nuclear generation fleet. In testimony before the Ohio Public Utilities Commission in 2014, 2015 and 2016, I evaluated the claimed benefits of the subsidies requested by FirstEnergy (to hedge volatility, bolster reliability, ensure diversity, etc.) and repeatedly found that the likely high costs of the subsidies were not justified by commensurate benefits. As conditions continue to change, the case for the subsidies is even worse today.

Background and Qualifications

I am an economist and independent consultant with over thirty years of experience in the electric power and natural gas industries. I have been involved in wholesale electricity market issues in Ohio, PJM, New England and other regions for many years, on behalf of consumer advocates, public power entities, environmental organizations, states and other interested parties. In particular, in recent years I have been involved in the difficult but increasingly important issues raised by state policies to support certain generation resources or categories of resources. Additional information on my experience and qualifications and a list of past testimony is available in my CV at www.wilsonenec.com.

My testimony is on behalf of NRDC, a national environmental organization that has been working on energy issues in Ohio and the Midwest Region for over a decade, as well as nationally for nearly four decades. NRDC was a principal stakeholder in the discussions that led to the Illinois Future Energy Jobs Act and the New York State Clean Energy Standard (policy packages that both include ZEC programs).

HB 178 Is Not At All Similar to the Environmentally Progressive and Broadly Supported Policy Packages Recently Enacted in Illinois and New York

The ZEC program recently adopted in New York as part of its Clean Energy Standard, and the ZEC program adopted in Illinois under Public Act 099-0906 (the Future Energy Jobs Bill), are similar to each other in a number of fundamental respects:

1. Both were approved in the context of broader initiatives to achieve state goals for emissions reductions, energy efficiency gains, and renewable generation (50% by 2030 in New York, 25% by 2025 in Illinois).
2. Both were approved primarily to retain the zero-emission attribute of nuclear generation, in order to not lose ground on the state's emission reduction goals in the near term.
3. Both afford some state agency discretion to determine whether a subsidy is warranted and in the public interest on a plant-specific basis, considering whether a nuclear plant is at risk, the potential impact of retirement on emissions and environmental goals, and other factors.
4. Both tie the ZEC price to the U.S. government's estimated Social Cost of Carbon.
5. Both reduce the future ZEC price if electric energy and capacity revenues rise and reduce the financial need for the program.
6. Both were ultimately supported by broad groups of interests and stakeholders, including interests typically opposed to nuclear power and to generation subsidies.

It has been suggested that HB 178, which would establish a narrowly-targeted Zero-Emission Nuclear Resource ("ZEN") program, is similar to the recent actions in New York and Illinois. For example, FirstEnergy's President and CEO Charles E. Jones, in his April 25 testimony before this committee, stated (p. 3):

> "ZEN would compensate nuclear plants on a per-megawatt basis for these attributes – ***similar to actions taken in New York and Illinois to value their nuclear power resources***." [emphasis added]

However, the program proposed by HB 178 is not at all similar to the New York and Illinois programs:

1. It is not being proposed to support state goals to expand emissions reductions and renewable generation. In fact, Ohio policy is moving in the opposite direction. Ohio's renewable portfolio standards and goals are modest compared to those in New York and Illinois, and Ohio House Bill 114 would make even those standards voluntary, among other changes that would weaken the support under Ohio policy for clean energy and energy efficiency. Therefore, unlike in New York and Illinois, a nuclear subsidy program in Ohio would not be supporting a long-term term state energy and environmental vision and associated goals.
2. HB 178 calls for a ZEN price that is simply a fixed subsidy, not connected to the estimated impact of carbon emissions, or to the financial need of any nuclear plant as it may change over time due to changing market prices.
3. HB 178 is apparently opposed by many interests and stakeholders, as indicated by other testimony submitted to this committee.

HB 178 Is Similar to Earlier Efforts by FirstEnergy to Obtain Subsidies For Its Generation

In Public Utilities Commission of Ohio Case No. 14-1297-EL-SSO, FirstEnergy proposed to recover all of the costs of certain of its nuclear and coal plants, net of the market revenues the plants could earn, from its utility customers. FirstEnergy did not style its application as a request for a subsidy; instead, FirstEnergy's position was that the plants would earn market revenues that more than cover their costs over time. FirstEnergy asserted that the proposal should be approved because, under its consultant's forecast of future energy prices, it would lower customer costs over the long term, and also provide customers a hedge of potentially volatile market prices.

In my four pieces of testimony in that lengthy proceeding (on behalf of the Office of the Ohio Consumers' Counsel, the Northeast Ohio Public Energy Council, and the Northeast Ohio Public Energy Council) I evaluated these and additional claimed benefits of the proposal. I testified that, contrary to FirstEnergy's claims, under reasonable energy price forecasts, the plants' costs were likely to exceed their revenues by three billion dollars – that is, FirstEnergy was essentially requesting a $3 billion subsidy for the plants, at the customers' expense. I also concluded that the value of the proposed arrangement as a hedge was doubtful, and I raised various other concerns about the proposal.

In supplemental testimony in the proceeding, FirstEnergy witnesses alleged various wholesale electricity market design flaws, and claimed there was "missing money" that could lead to reliability problems. In my supplemental testimony I rebutted these assertions, explaining how the markets administered by PJM Interconnection, LLC ensure adequate generating capacity, and noting the substantial amount of new generation under construction in and around Ohio at the time. I also explained that the various alleged market design flaws had already been addressed through various rules changes over the past several years. My testimony also addressed vague claims that the proposal would somehow provide value by supporting resource "diversity."

Since that time, the prospect that subsidizing these plants could provide benefits to Ohio consumers has grown even more remote. As natural gas production in the Utica formation expands, additional new gas-fired power plants have been proposed to be built on Ohio soil, despite relatively low wholesale prices and excess capacity. As more and more new, efficient and low-cost generation is built, including not only gas-fired capacity but also wind and other renewables, the prospect is for many years of moderate and relatively stable wholesale electricity prices. Accordingly, if I were to again update my analysis of FirstEnergy's requests for subsidies, I would again conclude that such subsidies would likely be very costly to consumers and without commensurate benefits.

I appreciate your time and consideration of my testimony. Should you have any questions, feel free to follow up with me directly at jwilson@wilsonenec.com.