

Ohio House of Representative Public Utilities Committee
The Honorable Robert R. Cupp, Chair

Testimony in Opposition to
House Bill 239:
*Allow recovery of national security
generation resource cost.*

Submitted By:
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Kindle Energy Management Company LLC
On behalf of Lightstone Generation LLC
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Good afternoon Chairman Cupp, Vice Chairman Carfagna, Ranking Member Ashford and members of the House Public Utilities Committee:

My name is Steven Arabia and I am Vice President of Government Affairs at Kindle Energy Management Company LLC (“Kindle”) and I am here on behalf of Kindle’s affiliate, Lightstone Generation LLC (“Lightstone”). I appreciate the opportunity to testify on this legislation.

Lightstone opposes House Bill 239 and we urge you to oppose it to demonstrate that Ohio is committed to fair competition, which has led to billions of dollars in energy investment.

Before I explain Lightstone’s opposition to HB 239, let me briefly introduce Lightstone. 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 most active private equity investment companies in the world. Blackstone and Arclight provide a source of investment capital that can facilitate future expansion of the Lightstone portfolio in Ohio and across the United States.

The Lightstone portfolio consists of four AEP power plants - three in Ohio and one in Indiana – acquired in January for a total purchase price of \$2.2 billion. Our Ohio plants are located in Pickaway, Washington and Gallia counties and directly employ more than 250 workers, pay \$11.7 million per year in property taxes, and invest another approximately \$270 million annually to safely and efficiently operate our Ohio plants.

Lightstone’s portfolio can generate more than 5,200 megawatts (“MW”) of electricity per hour, enough to power approximately 3.5 million homes. The funds used to purchase the portfolio were raised directly by Lightstone’s sponsors, and involved absolutely no funding from ratepayers or taxpayers. All of our revenue comes through the deregulated competitive wholesale marketplace. We receive no revenue through any form of regulated retail rates, or out-of-market subsidies.

We have considered Ohio to be an attractive place for investment in power generation. We have held this view in large part because it has been our perception that the risk of interference in market

structure - which would deter our ability to receive a fair return - is low. A good portion of our investment rationale rests on the Ohio legislature's laudable support of competitive electricity markets.

The energy policies enacted in Ohio in the late 1990s have, to date, 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, as with most companies, we must constantly strive to be more efficient, to keep costs as low as possible, in order to be competitive. We make the tough business decisions.

However, to support additional large-scale investments in Ohio, Lightstone must be convinced that a favorable environment for achieving a fair return from such investments will continue to exist.

As you know, a fair market environment, with a level playing field that gives no special treatment to select competitors, provides the transparency and certainty that investors need to plan for future growth. Any proposal that would alter this approach should be viewed with suspicion, and studied fully and carefully, because it creates the kind of uncertainty that cripples private investment.

Lightstone opposes House Bill 239 because it would provide preferential treatment to select companies, unfairly tilting the playing field in their favor.

The companies asking for this legislation say they need it because of poor performance. They say the portion of OVEC that they own, that is subject to competition, is losing money. So they want you to shift the financial risks off of their dividend-collecting shareholders, and load these risks onto the backs of their captive ratepayers.

What's more they want you to force Ohio ratepayers to eat the costs not only for a plant in Ohio, but also another one in Indiana.

Lightstone and the other power generators operating in Ohio compete in the same market as the investor owned utility owners of OVEC. We face the same pressure of low commodity prices. We face the same competitive pressures. We're working hard to ensure our companies are as efficient as they can be.

What we are not doing is asking the legislature to bail us out, to relieve us of the demands and challenges of running a business, or to shift business risk from shareholders to ratepayers.

I know that some have tried to equate this issue with national security, because the plants in question supported our nation's nuclear program when they were constructed in the 1950s. I honor that history. But the contract with the federal government ended in 2003. The utilities have had plenty of time to transition, to make the tough decisions businesses should make, to address the issues they claim exist with the OVEC contract and operating agreement.

I've not heard that local gas stations, grocery stores, restaurants or other businesses asked or received help from the legislature when the nuclear enrichment plants closed. Only the big investor-owned utilities have come to the legislature seeking relief.

Lightstone urges you to vote no on this bill. There is ample evidence in the record that shows that HB 239 is bad for consumers, damaging to existing businesses, contrary to current energy policy and detrimental to new energy investment. There are still many unanswered questions that should be addressed, including:

- Why are the merchant portions of OVEC losing money?
- What steps have the companies taken to cut costs and improve their competitiveness?
- What actions can the companies or the legislature take to address the issues with the contract and operating agreement the utilities claim prevent a sale or transfer of their merchant portions of OVEC?
- Have the contract and operating agreement been amended over the years?
- What options are available that might not be ideal for the companies but would be more protective of ratepayers?

Finally, what makes HB 239 so insidious is that it would start the state down the slippery slope of subsidies. Does anyone believe if this bill passes that proponents of nuclear plant bailouts would not be back in here with an amended version of the ZEN bill the next day? They would say, you bailed out OVEC, now bailout us.

In closing, I'd like to emphasize that Lightstone predicated its \$2.2 billion investment on the belief that Ohio will remain a fair place to conduct business. We cannot continue to make investments of that magnitude if policies are biased toward one particular type of company. The success of our investment, and decisions on future investment, depend on the continuation of balanced energy policies.

Please maintain Ohio's commitment to fair competition and vote NO on HB 239.