



THE BUCKEYE INSTITUTE

**Interested Party Testimony Before the
Ohio House Public Utilities Committee on
House Bill 247**

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Chairman Cupp, Vice Chairman Carfagna, Ranking Member Ashford, and members of the Committee, thank you for the opportunity to speak about the important electricity market reform policies found in House Bill 247. My name is Greg R. Lawson and I am the Research Fellow at The Buckeye Institute, a free-market think tank here in Columbus.

There is a serious problem at hand in our electric market that requires good policy to fix: Wholesale electricity prices have fallen dramatically since 2009, but the retail price that customers actually pay has only continued to increase.¹ This problem is holding back the Ohio economy.

Historically, it is now clear that Ohio's hybrid restructuring model is unworkable and policymakers must either go back to a fully integrated, regulated structure or complete the electricity market reforms that the General Assembly initiated in 1999.

Manufacturing is the single largest sector in the state in terms of Gross Domestic Product,² and manufacturers typically count electricity as one of their largest expenditures. Making the electricity market more price competitive will help this important sector to compete on the global market and continue to employ Ohioans.

Low-cost electricity is also a key factor for data centers and other infrastructure of the information sector. Technology companies are increasingly counting Ohio as a candidate for new sites, and a more competitive electricity market should help to attract and retain these investments. Critically, the issue of cross-subsidization must be addressed. Electric utilities must not be able to obtain anticompetitive subsidies for affiliate generation. Allowing this to happen undermines the market.

¹ Russ Keller, "Fiscal Note & Local Impact Statement: H.B. 247 of the 132nd General Assembly, As Introduced," Ohio Legislative Service Commission, November 28, 2017, <https://www.legislature.ohio.gov/download?key=8111&format=pdf>.

² The Buckeye Institute and Tax Foundation, "Ohio Illustrated: A Visual Guide to Taxes & the Economy," June 7, 2017, <https://www.buckeyeinstitute.org/library/doclib/2017-06-07-Ohio-Illustrated-A-Visual-Guide-to-Taxes-And-the-Economy.pdf>.

Policies within HB 247 would appear to improve Ohio's present state of competitiveness.

First, it would eliminate electric security plans (ESPs). Historically, Ohio's electric utilities have used these plans to inflate rates above the market price. Eliminating these plans would require electric utilities to only charge customers the market price for generation, not an ESP-inflated price. This reform would therefore allow many Ohio households and businesses to save money on their electric bill and put it towards other uses.

Second, it would permit the Public Utilities Commission of Ohio or the courts to issue refunds to customers for charges that are deemed improper. This provision would force the ratemaking procedure to be more transparent and fairer on the front side by ensuring that customers can be fully made whole.

Third, it would restrict monopoly utilities from owning power plants, even through an affiliate company. While eliminating ESPs alone may be able to limit potential cross-subsidization from these relationships, a requirement that electric utilities fully divest their generation assets would guarantee that utility affiliated generation cannot gain an unfair competitive advantage. Further, in light of the millions of dollars of transition revenues that utilities have already collected over the years, such separation is less draconian today than it was in the early days of restructuring.

In all likelihood, requiring owners of generation to be fully independent of any regulated utility would increase the competitiveness of the sector and lead to a more favorable outcome for Ohioans over the long run.³

In conclusion, Ohio is in desperate need of greater competitiveness, transparency, and fairness in its electricity market. Reforms such as, or similar to, those in HB 247 would make Ohio a better place to do business and make it easier for low-income individuals to pay their electric bills. Thank you for the opportunity to testify today.

³ Joe Nichols and Devin Hartman, "Don't Short Circuit the Ohio Electricity Market," The Buckeye Institute and R Street Institute, <https://www.buckeyeinstitute.org/library/doclib/2017-10-16-Don-t-Short-Circuit-the-Ohio-Electricity-Market-By-Joe-Nichols-and-Devin-Hartman.pdf>.