

**Proponent Testimony of
Kevin Murray
Executive Director, Industrial Energy Users-Ohio
Before the
Energy and Public Utilities Committee
Ohio Senate**

HB 6 AS PASSED BY THE HOUSE

June 12, 2019

Chairman Wilson, Vice Chair McColley, Ranking Minority Member Williams and members of the Committee. Thank you for the opportunity to provide testimony today.

My name is Kevin Murray and I serve as the Executive Director of the Industrial Energy Users-Ohio (“IEU-Ohio”). IEU-Ohio is a trade association that works on behalf of its members on matters that affect the price, availability and reliability of energy. We are active in matters before the Public Utilities Commission of Ohio (“PUCO”), in legislative activity before the General Assembly, and before federal agencies such as the Federal Energy Regulatory Commission (“FERC”). As an organization, we have been involved in every major piece of energy legislation that has been considered by the General Assembly in the last 25 years. I have included additional information on IEU-Ohio in an appendix to my written testimony.

I am testifying today as a proponent.

Our organization’s rationale for supporting HB 6 is plain and simple. Once fully implemented, Ohio customers served by investor-owned electric distribution utilities (“EDUs”) will see a net decrease on their electric bills. As PUCO Chairman Sam Randazzo testified last week before the Committee, over the last four years for which

statistics are available,¹ the customer payments to EDUs for Ohio's supply-side and demand-side energy mandates have averaged about \$341 million.² Based upon the fiscal analysis prepared by the Legislative Service Commission on the as-passed version of HB 6, customers will pay \$198 million into the new Clean Air Program Fund. Eliminating the supply- and demand-side mandates while creating the Clean Air Program Fund represents a savings of \$143 million each year, a clear benefit to Ohio customers.

HB 6, as passed by the House and under consideration by the Committee, has several positive attributes which our organization supports. First and foremost, it eliminates the energy efficiency and renewable energy mandates enacted in 2008 as part of SB 221. When SB 221 was under consideration by the 127th General Assembly, our organization opposed these mandates. They made little sense then, and they make even less sense today. All of the assumptions that were relied upon to support the mandates in 2008 have turned out to be false. As a nation and as a state, we are awash in abundant and relatively low-priced natural gas. As a state, we should be reaping the bounties of these benefits. It is past time to eliminate Ohio's energy efficiency and renewable energy mandates, which for the vast majority of customers simply represent an added tax on their electricity bills.

As an organization, we have supported competitive markets for energy (electricity generation and natural gas commodity) as a superior alternative to economic regulation. Competitive markets do a better job of delivering electricity and natural gas to customers at reasonable and lower prices. However, we recognize that from time to time and due

¹ Years 2014 through 2017.

² As I will discuss later in my testimony, \$341 million understates the true cost of the mandates.

to various policy considerations, the hand of government will place its thumb on the scale of energy markets to tip the outcomes in favor of particular competitors or technologies. For example, the federal government currently provides a production tax credit to wind generation resources and an investment tax credit to solar resources. In a perfectly competitive market, these types of government intervention would not occur. In reality, they happen all the time.

We recognize that it is appropriate for the General Assembly to be concerned about the fate of the two nuclear units located in Northern Ohio (Davis-Besse and Perry). As others have testified before the Committee, these facilities are a significant source of local taxes and jobs that help the economy. If the units close, they will never be restarted.

Recent low natural gas prices have reduced wholesale electricity prices in recent years. While this has been a benefit to customers, it has contributed in part to the financial woes facing the two nuclear facilities. But, continued low natural gas prices are not guaranteed. There are numerous LNG export projects under development in the United States. Once these projects come on-line, they will boost natural gas demand, potentially increase natural gas prices and, in turn, wholesale electricity prices.

Let me provide some natural gas statistics for your consideration. Today, the United States has four existing LNG export facilities in operation. These four facilities have a combined export capacity of 5.23 Bcf per day. FERC and the United States Coast Guard have approved an additional seven LNG export facilities that are under construction with a combined capacity of 10.2 Bcf per day. They have also approved another six LNG export facilities that have not yet commenced construction with a combined capacity of 12.35 Bcf per day. Finally, there are an additional 15 LNG export

projects with a combined capacity of a total of 20.30 Bcf per day that are in the early stages of the permitting process.³

If you add up the total capacity of the existing projects and projects under development or early site consideration, it totals about 48 Bcf per day of exports. That is an over 900% increase in exports over existing capacity. While it is possible that not all of these projects will ultimately be constructed, even if a portion of these projects are constructed it may impact the balance between supply and demand for natural gas in the United States, with a corresponding impact on wholesale electricity prices.⁴

The fact that wholesale market prices may increase makes it appropriate to consider whether assistance to the nuclear plants to stave off their near-term closure makes sense. Moreover, providing assistance to the plants to keep them in operation will (all other being equal) tend to reduce energy and capacity prices for customers. A study released last week by PJM Interconnection, LLC (“PJM”) confirms that keeping the nuclear plants in operation will provide directionally downward pressure on regional electricity prices.⁵

³ These statistics were obtained from FERC as of May 8, 2019. There are slides included in Appendix B to my testimony that identify the location and developer of these projects.

⁴ Last month, as part of an escalating trade dispute, China raised its tariff on LNG imports from the U.S. from 10% to 25% effective June 1, 2019.

⁵ PJM was requested by both the Pennsylvania Public Utility Commission and the Ohio Consumers’ Counsel to perform an analysis of the impacts of announced nuclear retirements on PJM wholesale market prices and emissions. In response to these requests, PJM conducted several simulations of the future PJM system with various combinations of announced nuclear retirements, including sensitivities that vary the amount of new entry that occurs. PJM has posted a copy of the analysis at: <https://www.pjm.com/-/media/library/reports-notice/special-reports/20190605-pjm-response-to-ppuc-ohio-consumers-requests-to-analyze-certain-impacts-of-nuclear-power-plant-retirements.ashx?la=en>.

Let me offer some additional positive observations about the current version of the legislation. The approach the legislation has taken to fund support for zero-emission facilities is through a capped and relatively modest monthly customer charge.⁶ Eliminating the renewable and energy efficiency mandates and their associated cost with the intent of producing an overall decrease in customer bills is laudable.

As the legislation progressed through the legislative process in the Ohio House, several improvements were added to strengthen and improve the legislation from a customer perspective. The legislation now includes a circuit breaker on payments from the Clean Air Program Fund if PJM market prices escalate. If prices rise above a threshold of \$46 per MWH based upon annual forecast, the \$9 per MWH payment to nuclear generating facilities will be adjusted downward.

The legislation now includes a firm end date for the Clean Air Program Fund, something our organization endorsed in prior testimony before the House Energy and Natural Resources Committee. If the General Assembly takes no further action, customers' charges to fund the Clean Air Program Fund terminate on December 31, 2026.

The substitute legislation phases out the elimination of the energy efficiency mandates, rather than having a flash cut to eliminate the energy efficiency mandates on the effective date of the legislation. This will assist electric distribution companies minimize legacy costs.

⁶ For commercial customers, the PUCO is directed to create a rate design that on average produces a charge of \$10 per month for commercial customers in 2020 and \$15 per month thereafter, terminating at the end of 2026. For smaller industrial customers, the PUCO is directed to create a rate design that on average produces a charge of \$250 per month, terminating at the end of 2026.

Additionally, the substitute legislation expands the current opt-out to include all mercantile customers, something we have advocated for as an organization for many years. It also eliminates the current opt-out reporting requirement to the PUCO, a common-sense outcome given the planned elimination of the mandates.

The legislation provides that legacy energy efficiency and renewable energy transition costs will be funded through Clean Air Program Fund revenues. This ensures that customers will see, once the legislation is fully effective, a net decrease in their bills.

The legislation also strengthens Ohio's reasonable arrangement statute by requiring the PUCO to minimize electricity rates when approving a reasonable arrangement for a trade-exposed manufacturer. While this reflects what I believe to be recent actual performance by the PUCO, including this provision helps to ensure this remains the case.

Let me speak briefly to debunk a few myths about what the legislation does not do.

The legislation does not eliminate energy efficiency improvements that have already occurred under the existing mandates. Energy efficiency improvements that are already in place will continue. Further, electric distribution companies are permitted to establish new energy efficiency programs for customers that voluntarily opt-in.

Thanks again for the opportunity to offer testimony. I would be happy to answer any questions.

ABOUT INDUSTRIAL ENERGY USERS-OHIO

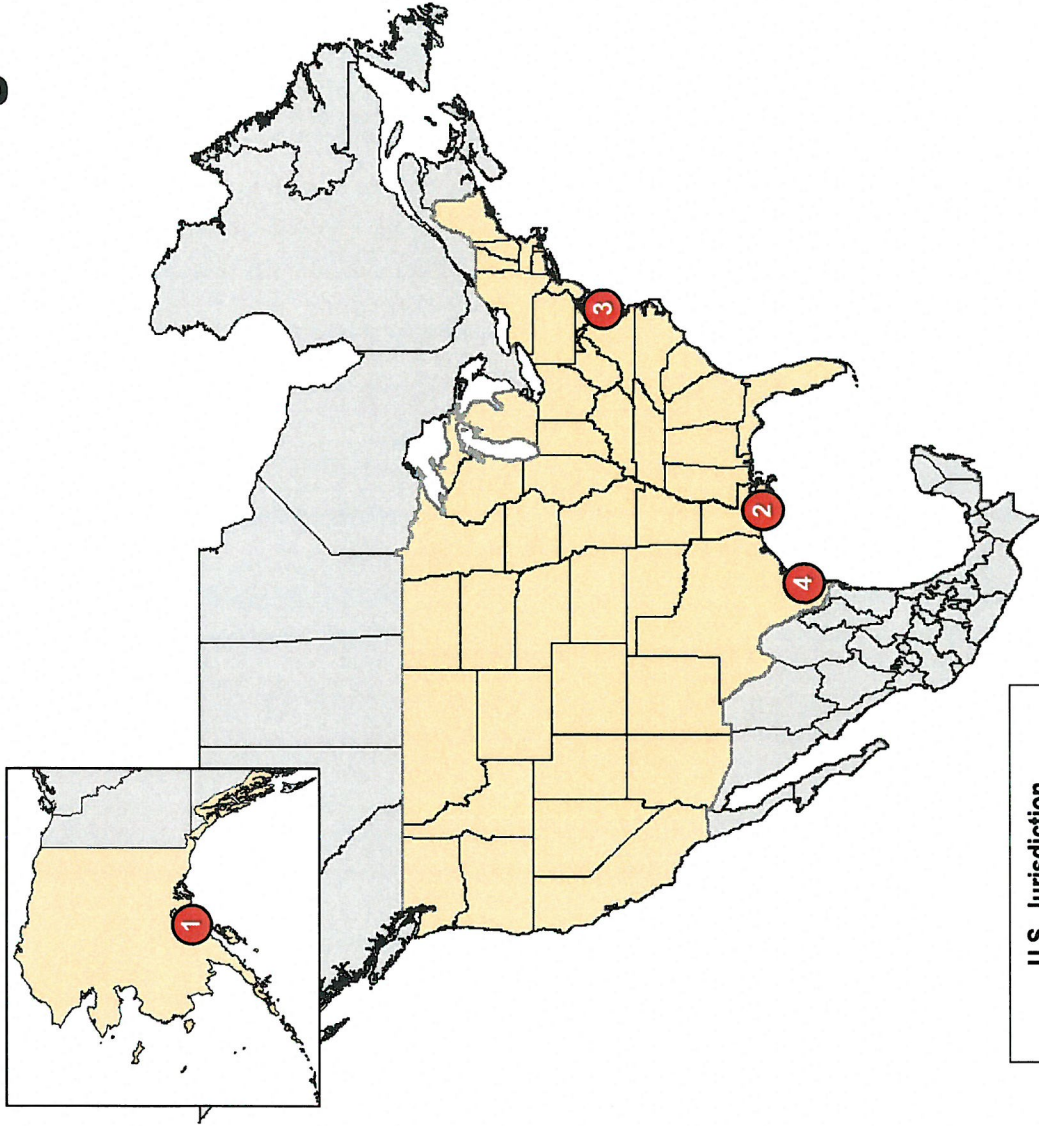
The Industrial Energy Users-Ohio (“IEU-Ohio”) is a group of energy-intensive manufacturing and business customers that have experienced changing, volatile energy markets across the country. As contributors to Ohio's economy, IEU-Ohio wants to use that expertise to assist other business customers to understand and benefit from opportunities in emerging energy markets.

As an organization, IEU-Ohio works proactively to address potential issues and decisions before they become problems. We are active in legislative, regulatory and technical venues so that rules and regulations established in competitive markets provide opportunities for all consumers. A primary goal is to help shape Ohio energy policy and enable effective competitive retail energy markets that can then assist Ohio's businesses in becoming strong global competitors.

IEU-Ohio's members work together to address matters that affect the availability of utility services and the cost of such services. IEU-Ohio seeks to promote rational and consistent policies that will assure an adequate, reliable and efficient supply of energy for all consumers at competitive prices.

**EXISTING AND PLANNED LNG EXPORT FACILITIES
UNDER DEVELOPMENT**

North American LNG Export Terminals Existing



Export Terminals

UNITED STATES

1. Kenai, AK: 0.2 Bcfd (ConocoPhillips)
2. Sabine, LA: 3.5 Bcfd (Cheniere/Sabine Pass LNG – Trains 1-5)
3. Cove Point, MD: 0.82 Bcfd (Dominion–Cove Point LNG)
4. Corpus Christi, TX: 0.71 Bcfd (Cheniere – Corpus Christi LNG Train 1)

U.S. Jurisdiction



FERC

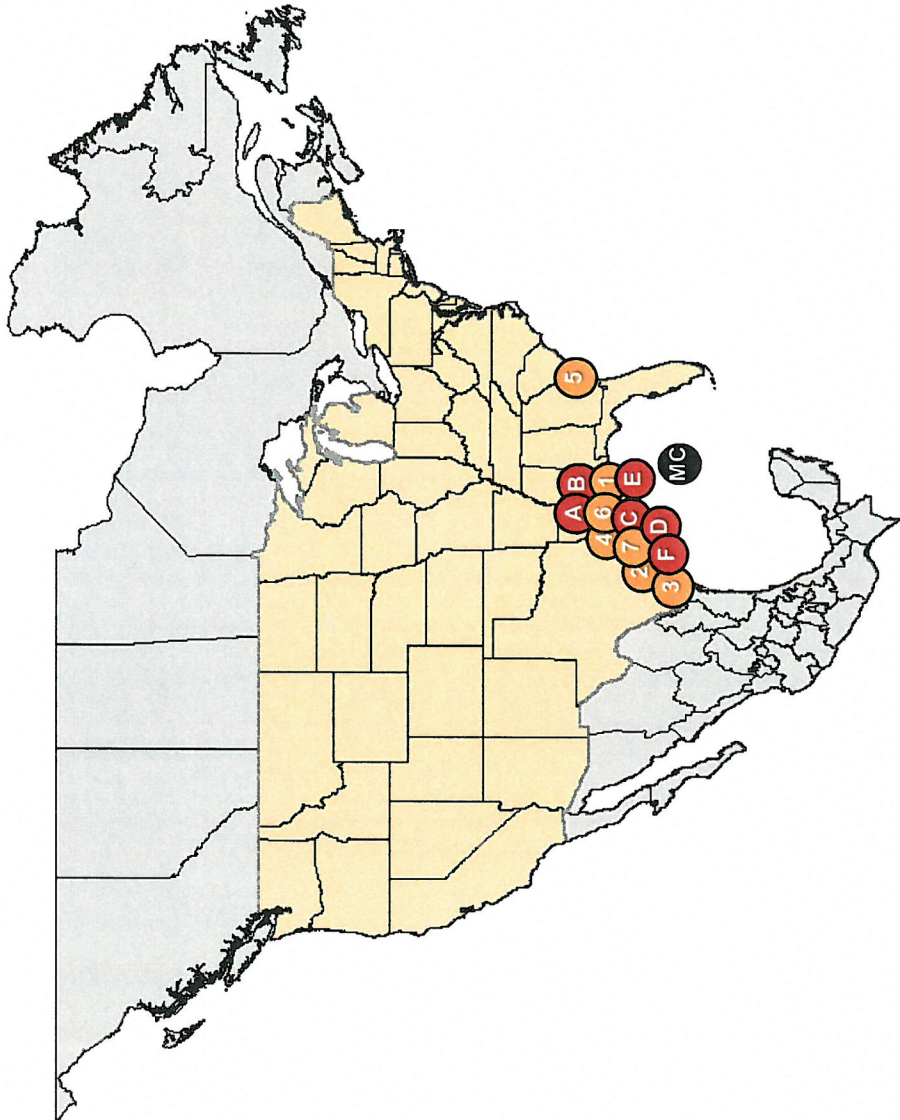


MARAD / U.S. Coast Guard



North American LNG Export Terminals

Approved, Not Yet Built



U.S. Jurisdiction & Status

- FERC - Approved, Under Construction
- FERC - Approved, Not Under Construction
- MARAD / U.S. Coast Guard

Export Terminals

UNITED STATES

APPROVED - UNDER CONSTRUCTION - FERC

1. Hackberry, LA: 2.1 Bcfd (Semptra-Cameron LNG) (CP13-25)
2. Freeport, TX: 2.14 Bcfd (Freeport LNG Dev/Freeport LNG Expansion/FLNG Liquefaction) (CP12-509) (CP15-518)
3. Corpus Christi, TX: 1.4 Bcfd (Cheniere – Corpus Christi LNG) (CP12-507)★
4. Sabine Pass, LA: 0.7 Bcfd Train 6 (Sabine Pass Liquefaction) (CP13-552)
5. Elba Island, GA: 0.35 Bcfd (Southern LNG Company) (CP14-103)
6. Cameron Parish, LA: 1.41 Bcfd (Venture Global Calcasieu Pass) (CP15-550)
7. Sabine Pass, TX: 2.1 Bcfd (ExxonMobil – Golden Pass) (CP14-517)

APPROVED – NOT UNDER CONSTRUCTION - FERC

- A. Lake Charles, LA: 2.2 Bcfd (Southern Union – Lake Charles LNG) (CP14-120)
- B. Lake Charles, LA: 1.08 Bcfd (Magnolia LNG) (CP14-347)
- C. Hackberry, LA: 1.41 Bcfd (Semptra - Cameron LNG) (CP15-560)
- D. Port Arthur, TX: 1.86 Bcfd (Port Arthur LNG) (CP17-20)
- E. Calcasieu Parish, LA: 4.0 Bcfd (Driftwood LNG) (CP17-117)
- F. Freeport, TX: 0.72 Bcfd (Freeport LNG Dev) (CP17-470)

APPROVED – NOT UNDER CONSTRUCTION – MARAD/Coast Guard
 MC. Gulf of Mexico: 1.8 Bcfd (Delfin LNG)

CANADA

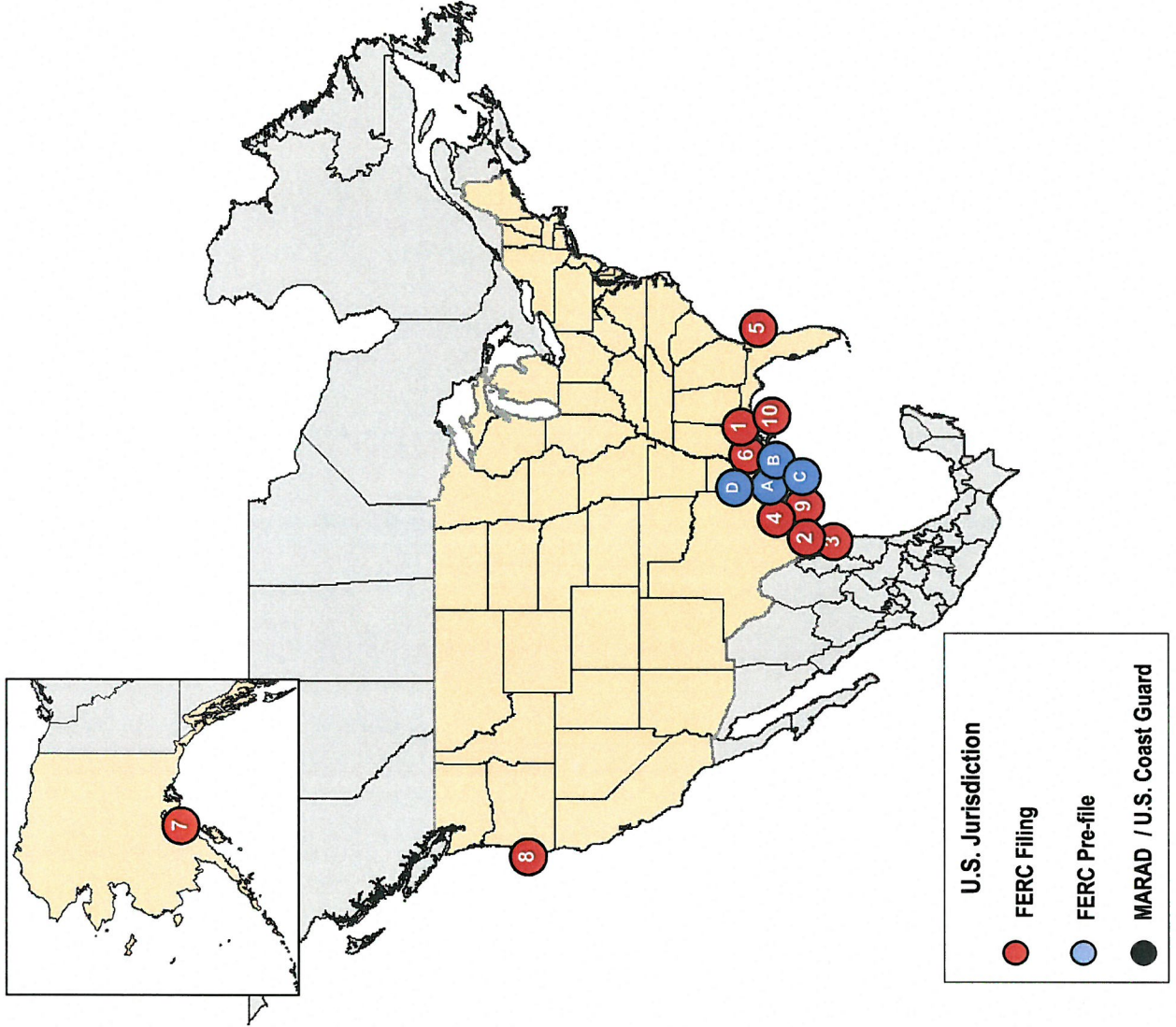
For Canadian LNG Import and Proposed Export Facilities go to:

<https://www.nrcan.gc.ca/energy/natural-gas/5683>

As of May 17, 2019

★ Trains 2 & 3

North American LNG Export Terminals Proposed



UNITED STATES

PROPOSED TO FERC

Pending Applications:

1. Pascagoula, MS: 1.5 Bcfd (Gulf LNG Liquefaction) (CP15-521)
2. Brownsville, TX: 0.55 Bcfd (Texas LNG Brownsville) (CP16-116)
3. Brownsville, TX: 3.6 Bcfd (Rio Grande LNG – NextDecade) (CP16-454)
4. Brownsville, TX: 0.9 Bcfd (Annova LNG Brownsville) (CP16-480)
5. Jacksonville, FL: 0.132 Bcfd (Eagle LNG Partners) (CP17-41)
6. Plaquemines Parish, LA: 3.40 Bcfd (Venture Global LNG) (CP17-66)
7. NIKISKI, AK: 2.63 Bcfd (Alaska Gasline) (CP17-178)
8. Coos Bay, OR: 1.08 Bcfd (Jordan Cove) (CP17-494)
9. Corpus Christi, TX: 1.86 Bcfd (Cheniere Corpus Christi LNG) (CP18-512)
10. Sabine Pass, LA: NA Bcfd (Sabine Pass Liquefaction) (CP19-11)

Projects in Pre-filing:

- A. Cameron Parish, LA: 1.18 Bcfd (Commonwealth, LNG) (PF17-8)
- B. LaFourche Parish, LA: 0.65 Bcfd (Port Fourchon LNG) (PF17-9)
- C. Galveston Bay, TX: 1.2 Bcfd (Galveston Bay LNG) (PF18-7)
- D. Plaquemines Parish, LA: 0.9 Bcfd (Pointe LNG) (PF18-8)

CANADA

For Canadian LNG Import and Proposed Export Facilities:

<https://www.nrcan.gc.ca/energy/natural-gas/5683>

U.S. Jurisdiction

● FERC Filing

● FERC Pre-file

● MARAD / U.S. Coast Guard

As of May 17, 2019