BEFORE THE
ENERGY & PUBLIC UTILITIES COMMITTEE
OF THE OHIO SENATE

SENATOR STEVE WILSON, CHAIRMAN

TESTIMONY
OF
ANTHONY SMITH
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COOPER TIRE & RUBBER COMPANY

SUB. HOUSE BILL 6

JUNE 18, 2019

Chairman Wilson, Vice Chairman McColley, members of the Senate Energy and Public Utilities Committee . . . Good morning. I appreciate this opportunity to present opponent testimony today on Substitute House Bill 6 (Sub. HB 6) and its proposed billion-dollar bailout of nuclear power plants in Ohio.

My name is Anthony Smith and I am the Global Energy Coordinator at Cooper Tire & Rubber Company. I also serve as a Board Member of the Ohio Manufacturers' Association Energy Group. I am testifying today on behalf of Cooper Tire and also on behalf of the Ohio Manufacturers' Association.

Cooper Tire is headquartered in Findlay, Ohio. In addition to its corporate headquarters, Cooper Tire has one of its three USA-based tire manufacturing plants, its mold manufacturing plant, and its Global Technical Center located in Findlay. Cooper Tire's Mickey Thompson wholly-owned subsidiary is also located in Northeast Ohio. Worldwide we employ 9,000 people, including 2,000 here in Ohio.

Cooper Tire's business is primarily focused on passenger car and light vehicle replacement tires in North America. We are the 13^{th} largest tire manufacturer in the world and the 5^{th} largest tire manufacturer in North America.

Over the past 30 years, 14 tire manufacturing plants have closed in the United States. And today, Cooper Tire's Findlay, Ohio plant is the ***only remaining*** light vehicle tire manufacturing plant in the state.

Access to reliable, affordable electricity is a significant competitive issue for our company. We are always looking for ways to reduce our costs – including what we spend on electricity – because that frees up resources which can be used to invest back into our business and create jobs. In an industry like the global tire industry, manufacturing costs are high and profit margins are tight.

Every day, Cooper Tire competes for business with other American tire manufacturers and with foreign tire manufacturers from lower-cost parts of the world. Every day, Cooper Tire strives to sustain and improve its cost competiveness through innovation, improved productivity and, in some unfortunate cases, staff reductions – all to stay competitive in the global market. And every day, Cooper Tire determines, among its global network of manufacturing plants, where to allocate its production and where to invest its resources, with operational costs being a significant consideration.

Sub. HB 6 will provide a bailout or handout to the owners of Ohio's nuclear power plants. The Ohio Legislative Service Commission has estimated the cost to customers for the nuclear bailout to be $140.5 million in 2020 and $197.6 million per year through 2026 adding up to more than one billion dollars.

I said bailout <u>or handout</u> because it is not known for certain whether the nuclear power plants are unprofitable. I think Senators are aware of a credible study that suggests the power plants will become profitable upon exiting bankruptcy when they shed the debt acquired from bad business decisions. Before you approve the bill, I hope the Senate will take the needed time to determine the finances of this company before imposing a new energy tax on Ohio customers.

Before I move to other concerns, I would like to comment that some of the proponents have suggested it is only fair that nuclear power receive a subsidy similar to renewable forms of power generation. I think it is important to point out that the nuclear power plants were paid for by Ohio consumers when Ohio's generation was regulated. That means Ohio businesses and families assumed the risk and paid the utility to build the plants. Then, when Ohio deregulated generation, as a result of Senate Bill 3, Ohio customers in the FirstEnergy service territory paid again in the form of nearly $7 billion in "stranded cost" subsidies for all of FirstEnergy's generation fleet.

Since that time, FirstEnergy has made filing after filing at the PUCO seeking more subsidies affiliated with the power plants. They have won over one billion dollars that Ohioans are presently paying on their power bills, including a billing rider that was approved merely to sustain the credit rating of FirstEnergy. So, while manufacturers like me value an "all the above" generation mix, we can't afford it at any price. I encourage your skepticism on proponents' claim of a need for a subsidy in the interest of fairness to other forms of generation.

Sub. HB 6 also provides additional subsidies for the utility owners of the Ohio Valley Electric Corporation (OVEC) coal plants in an amount estimated to be $405 million through 2030, which includes a facility located in Indiana. Some proponents have testified that the OVEC charges are merely codifying Ohio case law. But this is not accurate.

While it is true the Supreme Court of Ohio in 2018 upheld a PUCO ruling allowing AEP to collect OVEC subsidies from AEP customers, that case was in the context of the PUCO approving an Electric Security Plan or ESP and was limited to the term of the ESP. As such, those customer charges are scheduled to drop off when the ESP term has concluded in 2025. Sub. HB 6 will enable the owners of OVEC to impose new charges after 2025.

While proponents say the legislative solution to OVEC in Sub. HB 6 is preferable because of the cost caps, the owners of OVEC are allowed to defer the uncollected charges that exceed the caps, plus interest. This deferral will be due in 2030 and will be a significant cost that will have to be paid at that time. In summary, the OVEC charges contained in this bill constitute another new legislative energy tax on Ohio businesses and families.

In analyzing the full cost impact of this legislation on Cooper Tire's operations in Ohio, the net effect is a significant cost increase for our operations. Since SB 310 was passed in 2014, large energy consumers like Cooper Tire have the choice to opt out of paying the energy efficiency rider. If a large utility customer determines that the benefits that it receives from participating in the energy efficiency program outweighs the costs of the rider, it can choose to continue to pay the rider. Therefore, large energy consumers will not show a net decrease from the energy efficiency fee being reduced or eliminated. These companies may not have been paying the energy efficiency rider for the past several years, but now will have to pay the new charges created by Sub. House Bill 6.

Like most manufacturers, the largest percentage of our electricity bill is the generation component that we buy from the regional electricity market. Providing subsidies to a substantial group of power plants in the regional electricity market will cause wholesale power pricing to rise in Ohio compared to other states. There is currently a large surplus of low-priced electricity generation in the market, which is a competitive advantage for Ohio.

However, if the nuclear power plants and two old OVEC coal plants are subsidized, some of the lower priced generation will not reach Ohio electricity customers, due to market rules for subsidized power plants. A recent report from PJM Interconnection finds that retiring the current nuclear plants as scheduled and adding new natural gas and renewables would save $1.6 billion and 4.3 million tons of carbon.

The Ohio Manufacturers' Association strongly believes in fair, market-driven competition. The market is also driving cleaner, lower carbon emitting power generation according to Ohio EPA. The charges imposed on consumers and manufacturers from Sub. HB 6 are simply not consistent with competitive markets and are not good for Ohio's competitiveness.

Forcing Ohio's manufacturing plants to bear higher electric costs adds risk to our business in Ohio and impedes our ability to sustain or grow our operations here. For these reasons, my company like so many other members of the Ohio Manufacturers' Association firmly opposes Sub. House Bill 6.

I've attached to my testimony a document rebutting some of the myths associated with this legislation. I hope you will consider all these points as you determine the outcome of this legislative proposal.

Mr. Chairman . . . members of the committee . . . this concludes my prepared remarks. Thank you for your kind attention and the opportunity to share our concerns about Sub HB 6. Together with my colleagues and Ms. Bojko, I would be happy to respond to any questions you may have.

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ELEVEN MYTHS SURROUNDING SUB HOUSE BILL 6 (AS PASSED BY THE HOUSE)

(This document was updated June 17, 2019.)

There are numerous myths surrounding the Ohio House's legislation to bail out uneconomical nuclear power plants. Here are the top 11 myths – and the facts to set the record straight.

MYTH 1: SUB HB 6 IS ALL ABOUT CLEAN AIR – AND NOT A NUCLEAR BAILOUT FOR FIRSTENERGY SOLUTIONS.

FACT: THE BILL CANNOT BE MISTAKEN FOR ANYTHING OTHER THAN A BAILOUT.

- Sub HB 6 provides a Clean Air Credit to nuclear facilities ($9.00 per MWh of generation) (Sec. 3706.481) that may be increased annually for inflation. FirstEnergy already received subsides for its generation plants during the transition to a competitive market in the amount of $6.9 billion. Sub HB 6 creates additional subsidies for two Ohio nuclear facilities that do not operate efficiently. In contrast, all but one other nuclear facility operate at a profit. (See table below.) Poor management should not be rewarded in the form of a corporate bailout.

Nuclear unit forward annual surplus (shortfall) ($ in millions)

	Surplus (Shortfall) ($ in millions)		
	2019	2020	2021
Beaver Valley	$134.3	$93.5	$84.7
Braidwood	$106.4	$80.3	$51.7
Byron	$104.3	$78.6	$50.6
Calvert Cliffs	$131.0	$99.0	$89.3
Cook	$95.8	$48.4	$41.9
Davis Besse	($26.9)	($47.8)	($45.6)
Dresden	$97.3	$76.4	$53.8
Hope Creek	$57.9	$52.0	$43.3
LaSalle	$103.5	$78.0	$50.2
Limerick	$112.2	$100.5	$83.8
North Anna	$138.6	$99.3	$90.0
Peach Bottom	$113.4	$101.5	$84.1
Perry	($22.6)	($49.6)	($47.8)
Quad Cities	$61.3	$42.2	$20.9
Salem	$114.6	$102.8	$85.5
Surry	$120.5	$85.6	$77.6
Susquehanna	$77.7	$37.4	$28.2
Three Mile Island	($56.9)	($69.6)	($72.3)

Source: PJM 2018 State of the Market, Table 7-42, at page 352 of Volume II

- The latest version of Sub HB 6 also provides subsidies to five large solar facilities and to the Ohio utilities for their direct or indirect ownership in old coal-generating plants, Ohio Valley Electric Corporation (OVEC), which includes one plant in Indiana.

MYTH 2: SUB HB 6 WILL REDUCE COSTS.

FACT: SUB HB 6 WILL NOT REDUCE COSTS – IT ACTUALLY CREATES NEW COSTS.

- Sub HB 6 does not eliminate energy efficiency (EE) costs; **it continues the EE rider indefinitely.** The bill continues the existing EE programs through December 31, 2020, and **allows costs associated with those programs to be collected from customers** through December 31, 2021 (Sec. 4928.66).
- Sub HB 6 **adds new EE costs** for discontinuing the existing programs (Sec. 4928.66(G)).
- While Sub HB 6 terminates the EE mandates on December 31, 2020 (Sec. 4928.66(A)), it allows utilities to run EE programs approved by the PUCO and to receive **recovery of costs and incentives** for those programs beginning January 1, 2021 (Sec. 4928.661).
- Sub HB 6 **creates a new rider** (decoupling mechanism) that will **continue to collect certain EE costs and may add new costs** (Sec. 4928.471). The new rider will continue until the utility's next base distribution rate case. The utility can collect the revenues it received for the 12 months ending December 31, 2018, associated with implementing EE programs, which includes lost distribution revenues. The rider appears to apply to commercial customers that opted out of paying the EE costs pursuant to R.C. 4928.6611, thereby **increasing some opt-out customers' bills.**
- The Power Purchase Agreement (PPA) Program to be implemented by the PUCO **may add additional costs to customers' bills** through rulemakings, reasonable arrangement delta revenue, tariff provisions, or other ratemaking provisions (Sec. 4928.47). Although the most recent version attempts to narrow participation in the PPA Program to mercantile customers, all customers will pay for those PPAs and there are still a lot of unknowns, which could turn out to be a blank check.
- Sub HB 6 will **increase wholesale capacity prices** by eliminating EE mandates that help suppress capacity prices. Also, Sub HB 6 erodes competition in electricity markets by subsidizing certain generating facilities at the expense of others, thereby **increasing costs to customers.**

MYTH 3: MANUFACTURERS CAN GET THE CLEAN AIR CREDITS OR OTHER FUNDS.

FACT: THAT'S JUST NOT GOING TO HAPPEN.

- The Power Purchase Agreement (PPA) Program to be implemented by the PUCO may add additional costs to customers' bills through rulemakings, reasonable arrangement delta revenue, tariff provisions, or other ratemaking provisions (Sec. 4928.47). Although the most recent version attempts to narrow participation in the PPA Program to mercantile customers, all customers will pay for those PPAs and there are still a lot of unknowns, which could turn out to be a blank check.

MYTH 4: MANUFACTURES WILL BE EXEMPTED FROM PAYING THE CLEAN AIR FEES.

FACT: THERE'S NO GUARANTEE THAT A MANUFACTURER WILL BE EXEMPTED.

- There is no guarantee that a manufacturer will be exempted from paying the Clean Air Fees (Sec. 4928.47). The PUCO "may exempt" a customer who establishes a PPA to supply a portion of its load if it agrees to forgo benefits associated with the Clean Air Fund (Sec. 4928.47(B)(3)). But the language is vague, and it is left up to the PUCO to determine which customers the PUCO will exempt and under what circumstances.

MYTH 5: COST TO MANUFACTURERS IS MINIMAL.

FACT: MANUFACTURERS' COSTS COULD INCREASE SUBSTANTIALLY.

- The monthly charge to customers to fund the Clean Air Fund continues to be collected on a per-account basis (Sec. 3706.47). Typically, utilities assign an account to each meter belonging to a customer; industrial customers frequently have more than one meter. Thus, a large industrial customer with three accounts could be charged $90,000 per year (not $30,000 per year).
- We have learned of a small business with only eight employees that is currently classified by its utility as an industrial customer and it has four meters. That customer's bill could increase by $1,000 per month or $12,000 per year under Sub HB 6. The customer charge provision requires the customer to be classified by its utility, "consistent with the utility's reporting under its approved rate schedules," which are not standardized across all utilities. However, all utilities report an industrial customer count to the U.S. Energy Information Administration, which defines all manufacturers as industrial customers.
- The monthly charge is in addition to all of the other costs to manufacturers explained in Myth #2.

MYTH 6: SUB HB 6 CREATES DIVERSITY OF GENERATING RESOURCES.

FACT: THE BILL REMOVES INCENTIVES TO INVEST IN A BROADER ENERGY PORTFOLIO.

- If two Ohio nuclear plants, five solar facilities, and two old coal plants (one in Ohio and one in Indiana) receive subsidies and other resources do not receive subsidies, the four subsidized plants will likely be able to be dispatched by PJM, replacing other resources, which could include coal plants that recently invested to add scrubbers and emission control equipment. Unfairly subsidizing certain plants at the expense of all others may enable those subsidized plants to remain in the diversity mix, but could cause other resources to be eliminated from the mix.

MYTH 7: SUB HB 6 PROHIBITS GENERATING FACILITIES FROM RECEIVING MULTIPLE GOVERNMENT SUBSIDIES.

FACT: UNDER THE BILL, GENERATORS COULD GET MANY GOVERNMENT SUBSIDIES.

- Sub HB 6 does not prohibit a facility from receiving multiple government subsidies. It does not specifically prohibit resources from receiving one or more state, federal, or municipal subsidies, or local tax abatements, and only requires the PUCO to submit a report if FERC establishes a federal program. Moreover, Sub HB 6 allows a Clean Air Resource to receive a Clean Air Credit, receive monies through a PUCO-approved PPA, receive "accumulated" funds for capital formation and investment, while also allowing for increased capacity payments from PJM that could be triggered by Sub HB 6 (Sec. 3706.482; 3706.49; 4928.47).So in fact, generators could get many different government subsidies.

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MYTH 8: SUB HB 6 SWAPS MANDATES – OHIO'S ENERGY EFFICIENCY AND RENEWABLE PORTFOLIO STANDARDS ARE REPLACED BY A CLEAN AIR FUND.

FACT: MANUFACTURERS COULD GET STUCK PAYING FOR MULTIPLE MANDATES.

- Sub HB 6 does not eliminate EE costs and replace with a lower Clean Air Fee. Rather, Sub HB 6 continues to collect costs associated with existing EE programs through December 31, 2021, allows the utilities to collect costs and incentives associated with new PUCO-approved EE programs beginning January 1, 2021, and will assess new charges to customers, including customers that opted out of EE programs (see Myth #2). Additionally, Sub HB 6 does not just affect the EE and Renewable Portfolio Standards (RPS) mandates. Sub HB 6 modifies the ratemaking statutes enacted to effectuate deregulation and allows utilities to add new above-market charges to customers' bills through their Electric Security Plans (ESPs). Sub HB 6 creates a mechanism for distribution utilities to re-enter the generation market, creating bad energy policies. Sub HB 6 is a step backwards for Ohio.

MYTH 9: SUB HB 6 REDUCES EMISSIONS IN OHIO.

FACT: THE CURRENT SYSTEM IS WORKING; SUB HB 6 COULD THWART OHIO'S PROGRESS.

- Ohio's existing diverse electricity generation mix has already reduced emissions by 38 percent from 2005 levels. This lower carbon transformation has occurred in a competitive wholesale electricity market. Subsidizing older plants, including two coal plants, with older technologies that may otherwise retire and make way for newer technologies could result in increased carbon-dioxide emissions in Ohio.

MYTH 10: SUB HB 6 SUBSIDIES FOR OHIO VALLEY ELECTRIC CORPORATION (OVEC) ARE INSIGNIFICANT.

FACT: THE NEW OVEC SUBSIDY WILL COST OHIO FAMILIES AND BUSINESSES AN ADDITIONAL $488 MILLION THROUGH 2030.

- Total costs to Ohio ratepayers for OVEC under approved ESPs are approximately $79 million per year.
- The new OVEC subsidy will be an additional non-bypassable, above-market charge on customers' electric bills after the current OVEC non-bypassable charge expires.
- AEP Ohio will recover roughly $38 million per year from customers under the approved ESP through May 31, 2024. Sub HB 6 would allow the company to recover an additional $247 million between June 2024 and December 2030.
- Duke Energy Ohio will recover roughly $32 million per year from customers under the approved ESP through May 31, 2025. Sub HB 6 would allow the company to recover an additional $176 million between June 2025 and December 2030.
- The Dayton Power and Light Company will recover roughly $9 million per year from customers under the approved ESP through November 1, 2023. Sub HB 6 would allow the company to recover an additional $65 million between November 2023 and December 2030.

MYTH #11: SUB HB 6 SUPPORTS ONLY OHIO FACILITIES.

FACT: SUB HB6 WILL GIVE MILLIONS OF DOLLARS TO AN INDIANA COAL PLANT.

- The bill does NOT require that the National Security Generation Resources (OVEC) be in the state of Ohio to receive subsidies under Sub HB 6 (Sec. 4928.01(A)(41); 4928.147; 4928.148). One OVEC unit partially owned by the Ohio distribution utilities that will receive customer-funded subsidies from Ohioans under Sub HB 6 is in Indiana.