OHIO'S ELECTRIC COOPERATIVES | BUCKEYE POWER, INC. OHIO RURAL ELECTRIC COOPERATIVES, INC.

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Senate Bill 2 Proponent Testimony
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March 18, 2025

Chairman Chavez, Vice Chair Landis, Ranking Member Smith, and members of the Senate Energy Committee, thank you for the opportunity to provide proponent testimony on Senate Bill 2 (SB 2). My name is Craig Grooms, and I am President and CEO of Buckeye Power, Inc. (Buckeye) and Ohio Rural Electric Cooperatives. Inc. (OREC), collectively d/b/a Ohio's Electric Cooperatives (OEC).

OREC is the statewide trade association for Ohio's 24 member-owned, not-for-profit electric cooperatives. These 24 electric cooperatives provide electric distribution service to over 400,000 homes and businesses in the State of Ohio, many in rural areas. Each of Ohio's electric cooperatives are owned by the members they serve and, thus, operate for the benefit of their members, not shareholders. Each of Ohio's electric cooperatives are self-regulated through their respective boards, which are elected by their member-consumers.

Buckeye is a generation and transmission cooperative that produces, procures, and provides at wholesale all the electric capacity and energy required by Ohio's 24 electric cooperatives plus the Ohio load of a Michigan-based electric cooperative. Buckeye, throughout its history, has endeavored to meet all of its members' generation needs through assets it owns or is entitled to output. This has helped insulate them from price spikes and uncertainty in the electricity market and to provide them with reliable, environmentally responsible, and affordable power, which is Buckeye's mission.

Buckeye owns or has the right to the output of approximately 2,455 MW of generating capacity, including from coal and natural gas fueled power plants, and some renewables. Buckeye is also entitled to a portion of the output from the coal-fired plants owned and operated by Ohio Valley Electric Corporation (OVEC). Almost all of Buckeye's generation is located in the State of Ohio providing jobs and tax revenues to local Ohio communities and making Buckeye one of the largest generation owners in Ohio.

Because of the relationship between Buckeye and its members and the desire for Ohio electric cooperatives to meet their own generation needs, Ohio electric cooperatives were not subject to the deregulation of the electricity market that occurred in the early 2000s. Deregulation of generation resulted in Ohio investor-owned utilities spinning off their Ohio-based generation into deregulated affiliates, almost all of which, except OVEC, have now been sold to unregulated merchant generation companies or have been retired. This has led to Ohio becoming a net generation importer. We understand that this lack of generation, in addition to large load growth expected primarily from data centers, is the driving force behind SB 2 and other legislation aiming to encourage new generation (and related transmission and distribution investments) in Ohio.

While OEC has no need for additional generation to serve its members at this time, OEC is still dependent on the electric grid for reliability and, therefore, supports SB 2's goal of incentivizing new generation in Ohio. OEC appreciates the tailored behind-the-meter generation (BTMG) provisions contained in SB 2 that (i) limit the expanded BTMG provisions to *new* load in electric cooperative service territories, and (ii) prevent the complications associated with virtual BTMG, i.e. generation treated as if it were located behind-the-meter when actually not physically connected to load behind-the-meter.

Ohio's electric cooperatives have made significant investments in generation assets to meet the electric supply needs of their existing loads. Because of this investment, if existing retail members reduce the load OEC has planned and built or acquired generation for, by contracting with third parties for on- or off-site generation using expanded BTMG provisions, this can result in stranded generation assets. In the cooperative model, the costs of these stranded assets are then borne by the other cooperative members, as there is no one else to bear them. Current law protects electric cooperatives and their members against the risk of stranded generation assets by granting electric cooperatives the right to provide exclusive electric service to their members, except for traditionally defined self-generation, i.e. generation owned or leased by a customer on its own premises to supply its own load. OEC supports the provisions in SB 2 that apply *expanded* BTMG generation only to *new* load in electric cooperative territories, thereby limiting the risk of stranded generation assets built or acquired to serve existing load. Note that this risk of stranded assets does not apply in the service territories of investor-owned utilities (IOUs), because IOUs no longer own or are required to own generation to serve load and were compensated for stranded generation costs during the transition to de-regulation.

While OEC supports SB 2, the legislature could further improve SB 2 by limiting expanded BTMG provisions to new generation. This change would incentivize the building of new generation in Ohio, and, importantly, limit the ability of large loads like data centers to capture existing generation resources in expanded BTMG arrangements. Allowing mercantile customers to use existing baseload generation facilities (which are critical to the electric grid) as dedicated mercantile customer self-power systems would take this generation away from the power market that is used to supply Ohio consumers and shift the burden for building or acquiring new generation to serve new mercantile customer load from the mercantile customer themselves to others. Such an arrangement would likely exacerbate the existing generation supply shortfall and lead to cost shifting and reliability concerns for all Ohio consumers, including the members of Ohio's electric cooperatives.

OEC also supports the tangible personal property tax changes in SB 2 that will incentivize new generation to be built in Ohio, including by electric cooperatives. OEC also supports SB 2's reduction in tangible personal property tax on new transmission and distribution investments. These reductions will be passed directly to consumers through rates and will help address sky rocketing transmission rates (which have more than tripled for OEC in the last decade) while at the same time encouraging new investments in needed generation and related transmission and distribution.

Although OEC supports SB 2, the legislature should consider recent action at the federal level, including FERC orders relating to co-location of large load with generation, and expected wholesale market operator (PJM) responses, to avoid potential conflicts between Ohio legislation and evolving federal rules. The interaction between state and federal rules related to co-location of generation with large loads behind-the-meter is complex. Depending on what the FERC and PJM rules ultimately provide, there could end up being unintended consequences and cost shifting to other customers, like OEC and its members, that may need to be addressed in future legislation, if this legislation is adopted before the scope and applicability of the FERC and PJM co-location rules and their relationship to state law BTMG rules becomes clear.

OEC is supportive of SB 2's efforts to spur the building of new generation in Ohio, but notes that ultimately Ohio remains reliant on a functioning wholesale energy market to provide the price signals necessary for new generation to be built. Currently, PJM is expecting generation shortfalls to become a reality as early as next year. OEC notes that if, despite the reforms reflected in this legislation, the wholesale energy market continues to fail to spur needed generation investments in Ohio, ensuring cost-of-service compensation for generation in Ohio may eventually become necessary.

Thank you for the opportunity to comment on this important legislation.