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Interested Party Testimony Submitted to the Ohio House Public Utilities Committee on House Bill 239

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Thank you Chairman Cupp, Vice Chair Carfagna and Ranking Member Ashford for the opportunity to testify before the Ohio House Public Utilities Committee. My name is Greg R. Lawson. I am the research fellow at **The Buckeye Institute for Public Policy Solutions**.

The Buckeye Institute, a defender of free-market principles, has long supported economic growth through competitive means. Our position is that markets should be free from government subsidies or regulations that help particular businesses or industries.

Since the late 1990s, Ohio has moved toward competitive, customer-centric electricity markets. As electricity rates have risen across the country, Ohio and other states with restructured wholesale markets have enjoyed cheaper electricity due to a more competitive market. The deregulation of Ohio's market has increased competition and given consumers more choices and control over meeting their energy needs.

Unfortunately, it is not unusual for industries and businesses to ask governments for subsidies or bailouts, to pay for declining business. Bailouts, however, end up distorting economic activity and often slow long-term growth in the state. Worse still, "non-bypassable" riders require all customers to pay for the bailout through increased electricity bills.

When governments intervene in the energy market, or any business, policymakers allow for unfair advantages at taxpayer expense, and energy companies that do not receive the benefits of a government bailout are often unable to offer their services competitively. Subsidies can also inhibit new developments and technological advancements from entrepreneurial companies that do not receive special government backing, thus slowing long-term growth and innovation.

Providing subsidies also negatively impacts the state's employment and economy. Similar to Ohio's renewables portfolio standards, which The Buckeye Institute analyzed earlier this year, this Ohio Valley Electric Corporation (OVEC) bailout will lead to lost job opportunities and wasted economic potential. In looking at Ohio's renewables portfolio standards we found that even relatively small artificial increases in electricity prices cost Ohio tens of thousands of jobs and several billion dollars in GDP.[1]

In fact, the Legislative Service Commission's conservative estimate is that the OVEC charge, if approved as proposed, would cost all Ohio electricity customers nearly $257 million per year for the next 24 years.[2]

Of equal concern, is the contagious nature of subsidies and bailouts. Joe Bowring, president of Monitoring Analytics, said in a recent interview, "If one owner receives special subsidies, it is the fiduciary duty of other unit owners to seek comparable subsidies."[3] Eventually, either everyone will receive a government subsidy or government will step back and allow customers and the market to decide who succeeds.

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[1] Orphe Divounguy, PhD, Rea S. Hederman Jr., Joe Nichols, and Lukas Spitzwieser, ***The Impact of Renewables Portfolio Standards on the Ohio Economy***, March 3, 2017.
[2] **Fiscal Note and Local Impact Statement on House Bill 239** of the 132 General Assembly.
[3] R Street Shorts No. 40, "**The Market Advantage: A Q&A with Joe Bowring**," June 2017.

Subsidies also reward companies for poor choices and bailout companies that could have avoided their current crisis. While the companies involved in OVEC were involved in something of a shotgun marriage during the Cold War, those unique national security issues have long since disappeared. Well after the Ohio energy market was restructured to be competitive, OVEC companies twice voluntarily extended the contract that now goes until June 2040. Allowing for ongoing subsidies is an example of moral hazard that effectively rewards questionable decisions and signals to other companies that they too can be made whole irrespective of the wisdom of their decisions.

Ultimately, Ohio needs a full restructuring in its energy markets. For far too long, we have been caught in a strange hybrid where regulated investor-owned utilities retain generation capacity through affiliates, and utilities are able to use electric security plans to pile additional generation charges, like the proposed OVEC charge, on top of the market price. This has led to significant long-term problems where the market has not been allowed to be fully functional. Consequently, the promises of restructuring have only been partially fulfilled.

Rather than continuing to move the market toward complete restructuring, the OVEC bailout runs the risk of preventing that policy from moving forward. This would be a missed opportunity to improve competition, lower energy prices for consumers, and strengthen Ohio's economy

Thank you for your time. I look forward to answering any questions from the committee at this time.