



Senate Bill 155 Sponsor Testimony

Senators Lou Terhar and Bob Peterson

Senate Public Utilities Committee

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Chairman Beagle, Vice Chair LaRose, Ranking Member Williams, and members of the Public Utilities Committee, thank you for allowing me the opportunity to testify today on behalf of Senate Bill 155.

Senate Bill 155 provides a long-term solution for Ohio investor-owned utilities in response to their commitment to the federal government and to a corporation that operates a coal-fired power plant located in near Cheshire, Ohio, and a second coal-fired power plant located in Madison, Indiana. These commitments arose because Ohio's utilities did not hesitate to support national security at a critical time in our nation's history.

In 1952, during the Cold War and at the time when the federal government needed to develop the nation's nuclear arms program, the Atomic Energy Commission (AEC) looked to the private sector to fulfill the tremendous electrical needs of an uranium enrichment facility to be located in Piketon, Ohio, just north of Portsmouth. Ten Ohio River Valley area investor-owned utilities, and in subsequent years their successors and affiliates, answered the call and created OVEC.

The Ohio Valley Electric Corporation, better known as OVEC, was unique in both its ownership structure and the national security mission for which it was created. OVEC expeditiously constructed, owned, and operated two generating stations capable of producing over 2,000 megawatts of electricity to supply dedicated capacity and energy to AEC's Portsmouth Gaseous Diffusion Plant in Piketon, Ohio. In addition, the OVEC sponsoring companies agreed to provide additional security to backstop the project including:

- Providing power to AEC during construction;
- Providing power to AEC during maintenance or emergency outages; and,
- Accepting the incremental power that the AEC and, later the Department of Energy (DOE), did not need at certain times.

During the heart of the Cold War years, all proceeded as planned and OVEC accomplished its mission. Following the nation's victory in the Cold War, conditions began to change. As the need for electrical power for the enrichment facility declined, output from OVEC plants was diverted to domestic use and, in 2003, the affiliation with the United States Department of Energy (DOE) was terminated. As a result, all of the costs associated with OVEC fell on the sponsoring companies. This event was a turning point and key contributor to the problem this legislation seeks to remedy.

When OVEC was formed, all sponsoring companies, including the five major Ohio public utilities with ownership stakes (AEP Ohio at 14%, what is now Duke Energy at 9%, Dayton Power & Light at 5%, and First Energy at 5%) were all vertically integrated entities in regulated states. In addition, an Ohio rural co-operative, Buckeye Power, has an 18% stake but because it is a co-op, recovers its costs. Over time, the sponsoring companies (with the exception of Buckeye Power) found themselves no longer identically structured; subject to different regulatory paradigms, different Regional Transmission Organizations (RTOs) or different control area rules; and, driven by different business objectives. Further complicating the situation for Ohio's utilities is OVEC's corporate structure, which, owing to the uniqueness of its origin and purpose, was designed such that unanimity is required for all major business decisions, including the transfer of ownership. The interplay of these circumstances results in a disparity in cost recovery for OVEC-sponsoring companies located in regulated states versus those in deregulated states. Stated differently, cost recovery for Ohio's utilities is much more complex and difficult than for their counterparts that are located in Indiana, Kentucky, and West Virginia, that still regulate electric generation.

Within the next 2 years, under the direction of the state through the Public Utilities Commission of Ohio (PUCO), the Ohio utilities that have not done so already will likely

have divested all their legacy generation—all, but for their contractual commitments to OVEC. The uniqueness of the OVEC situation has long been acknowledged by the PUCO, which has granted recovery of OVEC-related costs in some limited cases, for limited periods of time. However, a long-term solution is needed for Ohio's distribution utilities that have fulfilled their commitment to national security and the United States government.

Several additional items are important to note about this proposal:

- This legislation seeks to provide recovery of prudently incurred costs only; there is no return component for the investor-owned utilities built into the costs.
- OVEC-related cost recovery will not impact the wholesale competitive markets, nor will it affect customers' rights to shop for a retail energy supplier of their choice.

The unique mission and circumstances that brought about OVEC, the disparity in terms of cost recovery, and the long obligations that Ohio's investor-owned utilities accepted and fulfilled, supports granting consistent and long-term cost recovery appropriate. Sb 155 will accomplish that purpose.

Chairman Beagle, I thank you again for allowing me to speak on behalf of Senate Bill 155. I will be happy to answer any questions you may have at this time.