

OHIO SENATE

Energy and Public Utilities Committee

SENATE BILL 346

THE REPEAL OF HB6

TESTIMONY TYPE: Interested Party

TESTIMONY DATE: December 1st, 2020

INTERESTED PARTY NAME: Jon Paul Morrow

TESTIMONY:

Thank you, Chairman Wilson, Vice-Chair McColley, Ranking Minority Member Williams, and members of the Committee for the opportunity to provide testimony on SB346.

There is much controversy surrounding HB6 after the release of an FBI investigation - made possible by the chief organizer against HB6 turning state's evidence. While certainly damning for First Energy Corporation and for the politicians involved - we need to look at where we were, where we are now, and where we are heading into the future.

From 1990 to 2005 (15 years prior to effective deregulation of Ohio's energy grid) Ohio's residential electricity rates hovered right around \$8.50/MWhr. The deviation during this time frame was about \$.01. This was when Ohio legislators and the Public Utility Commission oversaw Ohio's energy grid. Technically you could account for inflation in these numbers but because I believe that the cost of energy is a driver of inflation, I do not. Keep in mind during this time, the abundance of natural gas in Ohio and Pennsylvania had not been discovered and tapped.

In the 15 years post-deregulation, we have had an unprecedented rise in energy costs in what has been called a "free market". The costs of fuels such as natural gas, coal, and uranium have all went down in price all the while inflation has not substantively reared its ugly head during this same time frame. At the same time as we have falling prices for the feedstocks to make energy our costs have raised dramatically. Leaving everyone that cares to look at the actual data to ask how has deregulation benefited Ohioans?

Natural Gas Costs since Deregulation

- 2006 - \$9.34/MWhr Residential Cost of electricity
- 2007 - \$9.57/MWhr Residential Cost of electricity
- 2008 - \$10.06/MWhr Residential Cost of electricity
- 2009 - \$10.67/MWhr Residential Cost of electricity
- 2010 - \$11.31/MWhr Residential Cost of electricity
- 2011 - \$11.42/MWhr Residential Cost of electricity
- 2012 - \$11.76/MWhr Residential Cost of electricity
- 2013 - \$12.01/MWhr Residential Cost of electricity
- 2014 - \$12.50/MWhr Residential Cost of electricity
- 2015 - \$12.80/MWhr Residential Cost of electricity
- 2016 - \$12.47/MWhr Residential Cost of electricity
- 2017 - \$12.62/MWhr Residential Cost of electricity
- 2018 - \$12.16/MWhr Residential Cost of electricity

Are State Legislators Better than PJM and a Free-Market?

As a free-market economist - this is indeed perplexing. How can the government be better at something than the free-market? In examining Ohio's energy markets many economists become stumped. The problem is they cannot see the forest from the trees.

You see, you need to examine how markets naturally formed in order to determine where they perform best for the consumer. While Ohio legislators have been consumed with deregulating our energy markets ever since Enron started the deregulation craze - they have not been able to see the forest because they have been busy concentrating on the trees. Energy, such as electricity, is a macro-market and not a micro-market.

Government is good at coordinating very complex projects where you need a high degree of cooperation. This coordination brings an intelligent design to very complex projects rather than organic growth which may never provide the efficiencies of intelligent design. If you do not need innovation to drive technology growth to be responsive to consumers - the government can be very good at providing a benefit to consumers. You can see this with the Federal Government and the national highway system.

We had a free-market where states competed against other states.
Why did this happen?

The American people really liked electricity. It is what our economy became based upon. But the electricity market is far more than just delivering energy. It is providing energy 24/7/365. That was a complex task to achieve and required coordination. This is where Edison and Tesla both asked the states to step in. They had real problems developing the grid in the beginning and providing energy consistently. Once the state laid some ground rules and provided for the coordination of activities (such as coordinating other power-plants to increase power output while a plant is down undergoing maintenance) the consumer got the consistency they wanted and expected.

State legislators acted in the best interest of their state and there was a vibrant competition between states.

Enron and legislators that promoted utility deregulation are not students of history nor economics. If we do not learn from history we are condemned to repeat it.

Due to Ohio's deregulation efforts - Ohio has refocused its efforts on competition internal to Ohio and has largely ignored competition external to Ohio. While we may have great competition within Ohio and even within the PJM network - Ohio is not competitive with many other states. Why? Because the artificial markets that have been created don't focus on what Oklahoma, Tennessee, Texas, China, or Japan is doing.

The Blizzard of 1978

Many of us remember the Winter of 1978. You may even be one of the millions left without power but without natural gas heat as well. Our home when I grew up had a fireplace and a backup furnace that burned coal. So during the Blizzard of 1978 while we operated by flashlight and candles for a while - we were nice and toasty. Not all Ohioans were so lucky. Many died and froze to death that winter.

Since 1978, many homes have been built and most do not have those older systems of heat for a backup.

We lost gas pressure in the natural gas lines because it was so cold and so many natural gas wellheads had froze-off that our infrastructure could not keep up with demand. While 51 Ohioans died and more than 300 experienced permanent frostbite damage - it was a wake-up call to not become too dependent on Natural gas.

Surely, with the advancement of technology natural gas delivery and our more modern infrastructure, we have become better at delivering natural gas?

The War on Coal

While technology has improved on the natural gas front, Ohio is much more likely to far much worse if it experiences a 1978 Blizzard again.

Since the 2014 polar vortex when natural gas was in such short supply it could not keep natural gas electrical generation plants running - Ohio has had a number of coal-fired power plants shutdown due to the market forces created by the “war on coal”.

Coal-fired power plants Retired since the Polar Vortex in 2014

(Ohio) Beckjord 4, 5, 6

(Ohio) Miami Fort 6

(Ohio) Eastlake 1, 2, 3

(Ohio) Muskingum River 3, 4, 5

(Ohio) Pickaway 5

(Ohio) Hutchings 1, 2, 3, 4, 5, 6

(Ohio) Avon Lake 7

(Ohio) Stuart 1, 2, 3, 4

(Indiana) Tanner’s Creek 1, 2, 3, 4

(West Virginia) Kammer Mitchell 1, 2, 3

While we have increased natural gas line capacity by building new gas pipelines - the natural gas industry has not provided for well-head freeze-off protection that is required in more northern latitudes. Combine the amount of coal-fired power plants retired and no well-head freeze-off protection and Ohio has a recipe for disaster for the next cold-weather event.

An over-reliance on natural gas due to artificially contrived markets does not benefit Ohioans in the case of an extreme cold-weather event.

Conclusions

Where we were prior to deregulation:

Prior to deregulation Ohio had thousands of energy jobs and was producing most of its own energy. Ohio was more competitive with other states and nations with higher input (fuel) costs. Our air quality in Ohio was acceptable to many growing up in the 1980's with the possible exception of the Greater Cleveland area. We had no mandates to subsidize renewables and efficiency programs.

Where we were post deregulation and prior to HB6:

Prior to HB6 and after deregulation - Ohio has become dependent upon other states to produce its electricity. Thousands of energy-producing jobs have left the state. Electricity rates for Ohioans have soared to unprecedented levels. We have not put in place a requirement on natural gas wells to make them resilient during an extreme cold weather event. Natural gas infrastructure has not expanded at a rate commensurate with coal-fired power-plant shutdowns. Ohioans were paying an obscene amount of money for mandated renewables and efficiency programs.

Where we are now:

HB6 lowered the cost of electricity by doing away with efficiency mandates and limiting renewable energy mandates. We all pay less for electricity. The bailout that was going to the wind industry and solar industry was reduced and redirected to powerplants that can weather an extreme cold-weather event. The ultimate effect was lower-cost and better safety and security for Ohioans.

Where do we want to go from here?

I think Ohioans do not want to pay more for energy - even if they are paying less due to unethical behavior.

I think Ohioans want to have clean air - removing two nuclear power plants will not make Ohio's air cleaner.

I think Ohioans want to have power and heat during the next blizzard or polar vortex and shutting down resilient coal-fired power plants with modern pollution controls is not the answer.... especially when we do not require wellhead freeze-off protection for our natural gas wells.

Recommendations

- Place a threshold on the amount of natural gas that can provide electrical generation based on the volume of natural gas wells without wellhead freeze-off protection and the infrastructure required to deliver natural gas during an extreme cold-weather event. The more resilient natural gas becomes the more of a market-share it deserves to get. The same is true with any technology - a threshold should be placed on it if the technology is not resilient during extreme cold-weather and extreme hot-weather events. This gives companies an incentive to find a way to become resilient. Ohioans want their energy 24/7/365 and during extreme cold weather events.
- Does Energy Harbor need the money? A stock buy-back from a new company is not proof that it does not need the money for its operations. The company might have gotten additional investors due to the deal it got with the passage of HB6. Had HB6 not passed they may have never gotten the money. At this point, we don't know. Repealing HB6 and replacement with the condition of an audit and a show of need for the money is a sensible measure. Subsidizing resiliency due to no resiliency standard makes sense. Will the cost of natural gas rise if it must become as resilient as coal? More than likely it will and then Nuclear and Coal would need no subsidies. We should not be in favor of subsidies but when artificially contrived markets do not reflect the realities of consumer expectations - they can be a necessary evil.
- Re-regulation of Ohio's energy grid by Ohio. History has shown that PJM cannot provide better management than what the state of Ohio could and cannot provide better resiliency and cost. It is time to get rid of the middlemen and get back to lower costs and a much more competitive Ohio. The state of Ohio could provide an unbiased set of rules, an energy matrix if you will, that would allow for competition within the state without legislators having to make a political decision about energy - yet, keep the focus on competition external to Ohio.