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Testimony of the Manufacturing Policy Alliance on Sub. H.B. 317
by Joe Price
House Public Utilities Committee
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Chairman Hoops, Ranking Member Smith, Vice Chair Ray, and fellow distinguished members of the House Public Utilities Committee, my name is Joe Price, and I am a partner at Larr Policy Consulting, LLC. I am here today on behalf of the Manufacturing Policy Alliance (MPA).

MPA was formed to provide an effective voice on critical policy matters that affect the competitiveness of Ohio and its large manufacturing companies. We strive to work with the General Assembly and the Governor to help sustain a healthy and vibrant economy. MPA previously provided testimony to this Committee on Sub. H.B. 317 and we continue to believe that the legislation would provide significant improvements to electric ratemaking when compared to current law.

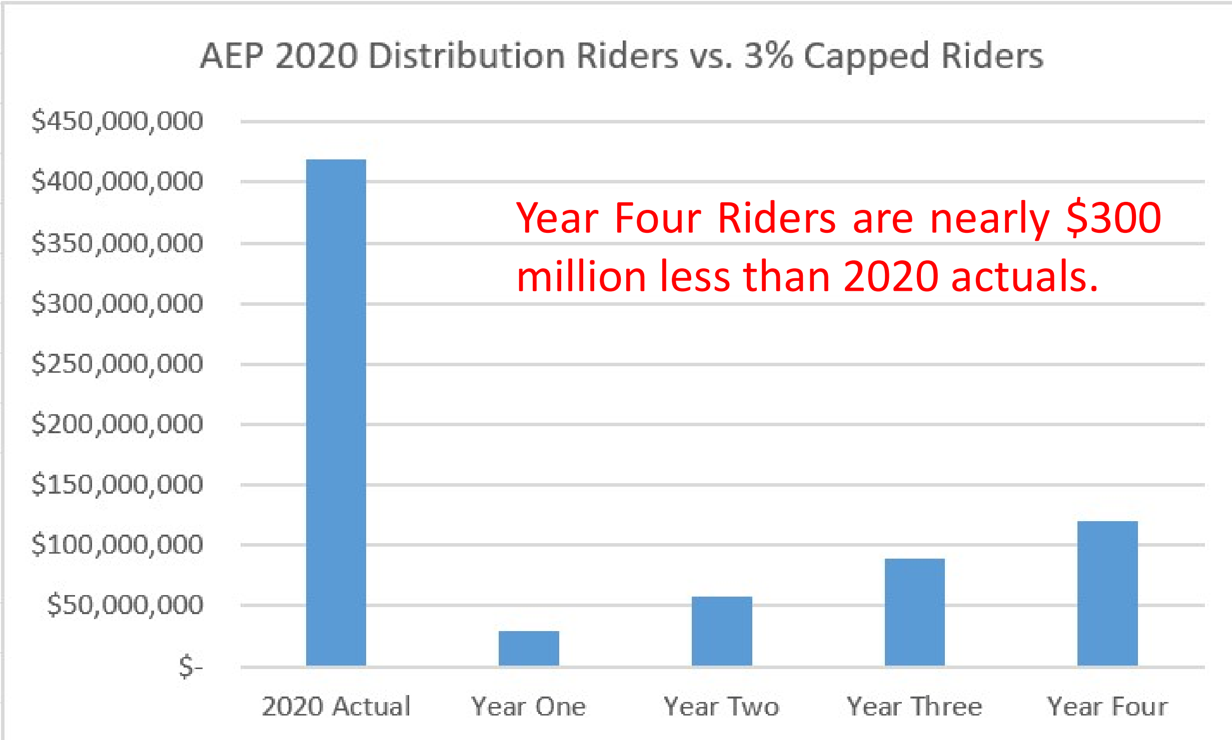
However, this Committee has also received criticism of the bill, of which I will do my best to refute and provide additional information. Given time constraints, I will focus on some of the issues that have the greatest impact on customers' electric bills. But before I begin, one notable complaint is that this bill is a "wish list" for the electric distribution utilities. If that were true, one might expect utility *support* for the bill – not opposition testimony, as you have before you today.

One recurring criticism is that the bill would continue to allow electric bill riders. Riders are special charges (or credits) approved by the Public Utilities Commission of Ohio (PUCO) to recover specific costs (or lower customer bills) over time. Current law allows for virtually endless riders, provided PUCO approves them and they are not overturned on rehearing or struck down by the Supreme Court. H.B. 317 places a cap on the growth of distribution riders at three percent (3%) of each utility's prior annual total distribution revenue. Opponents suggest that this is not a real consumer protection, using AEP as the example. Opponents accurately contend that by year four, assuming the maximum 3% cap is permitted by PUCO, AEP will be collecting approximately $120 million in riders.

But that math is meaningless without context. Consider that AEP Ohio's actual 2020 distribution rider costs totaled $418.9 million[1] – nearly $300 million more than the opponent's scenario. That's the difference between current law and what H.B. 317 would enable. AEP is being used here as the example not to specifically single them out, but because that is what the opponents have used to illustrate the rider costs.

[1] See Case No. 20-585-EL-AIR.

The chart below demonstrates this contrast in magnitude.



In 2020, AEP distribution riders accounted for 41% of the company's total distribution revenue. Under H.B. 317, that total could not grow beyond 16% before a rate case would be triggered, assuming normal levels of inflation.

Another complaint is that the 3% cap is compounding and therefore could lead to very large increases. We agree that compounding does increase growth – just look at your 401(k). But it takes relatively long periods of time for the effects of compounding to produce significant differences.

For example, assume a 3% rider cap for five years without compounding – that's simple, a 15% increase. When you allow for compounding, the effect over five years only produces 15.9%. This should not become a significant problem provided there are regularly required rate cases, which do not exist in current law whatsoever, but would happen at least every five years if this bill is enacted into law.

The current substitute bill allows for the 3% cap to be greater if inflation, measured by the Consumer Price Index (CPI-W), exceeds 3%. Anyone who follows the news knows that inflation is at the highest levels since the early 1980s.

For your reference, we have included in the chart below the last ten years (122 months) of CPI data, as published by the U.S. Bureau of Labor Statistics (BLS). Months in which the CPI has exceeded 3% are highlighted in yellow.

CONSUMER PRICE INDEX FOR URBAN WAGE EARNERS AND CLERICAL WORKERS (CPI-W)
(not seasonally adjusted)

Percent change from 12 months ago												
2012	3.1	3.1	2.9	2.4	1.6	1.6	1.3	1.7	2.0	2.2	1.7	1.7
2013	1.5	1.9	1.3	0.9	1.2	1.8	2.0	1.5	1.0	0.8	1.1	1.5
2014	1.6	1.0	1.4	2.0	2.1	2.0	1.9	1.6	1.6	1.5	1.1	0.3
2015	-0.8	-0.6	-0.6	-0.8	-0.6	-0.4	-0.3	-0.3	-0.6	-0.4	0.1	0.4
2016	1.2	0.7	0.5	0.8	0.7	0.6	0.4	0.7	1.2	1.4	1.5	2.0
2017	2.5	2.8	2.3	2.1	1.8	1.5	1.6	1.9	2.3	2.1	2.3	2.2
2018	2.1	2.3	2.4	2.6	3.0	3.1	3.2	2.9	2.3	2.7	2.2	1.8
2019	1.3	1.3	1.8	1.9	1.7	1.4	1.7	1.5	1.5	1.6	1.9	2.3
2020	2.5	2.3	1.5	0.1	-0.1	0.5	1.0	1.4	1.5	1.3	1.3	1.4
2021	1.6	1.9	3.0	4.7	5.6	6.1	6.0	5.8	5.9	6.9	7.6	7.8
2022	8.2	8.6										

Source: https://www.bls.gov/regions/mid-atlantic/data/consumerpriceindexhistorical_us_table.htm

Sub. H.B. 317 would allow the rider costs to rise to the level of inflation, but no greater. Additionally, it is important to remember that this is a cap, not a floor. Riders are subject to PUCO approval and could be lower. And while no one really knows how long the inflation will last, it is likely that we will have much bigger economic problems than electric distribution riders if it persists for multiple years.

Lastly, regarding the cap, opponents claim the bill will do nothing to cap rising electric transmission costs. They are correct about that. We share their concern about transmission costs, which are increasing with alarming speed. But unfortunately, the Ohio General Assembly cannot cap transmission costs, as those are set by the Federal Energy Regulatory Commission (FERC). If the General Assembly would like to put additional oversight on the siting of transmission projects, it could do so by enhancing the jurisdiction of the Ohio Power Siting Board (OPSB), but capping the costs is against federal law. PUCO could perhaps spread out the pain, deferring transmission cost collection, but the utilities would rightfully receive a carrying charge for doing so. That just results in a pay-me-now or pay-me-later scenario. But either way, the bill must be paid.

To summarize, a reasonable cap combined with regular rate cases is a real consumer protection and one that simply does not exist under current law. Utilities may prefer all riders and no rate cases. Some customer groups may prefer no riders and all rate cases. A reasonable balance is combination of each, something H.B. 317 achieves and is lacking under the existing Electric Security Plan (ESP) statute.

MPA believes Substitute H.B. 317 will significantly improve the way in which electric rates are set and by doing so, will make Ohio a more attractive state for manufacturing. We encourage the House to enact Substitute H.B. 317.

Mr. Chairman, this concludes my testimony. I would be happy to answer any questions that you or members of the Committee may have.