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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.

Before we discuss the reforms the bill will make, let's discuss what won't change:

- 1) All customers – large and small – retain the right to shop for electric generation.
- 2) Any customer choosing not to shop will receive power through their utility at a market-determined price, set by periodic auctions supervised by the Public Utilities Commission of Ohio (PUCO).
- 3) Transmission charges – determined by the Federal Energy Regulatory Commission (FERC) and PJM Interconnection (PJM) – will continue to be collected through riders.

The heart of Sub. H.B. 317 is its reforms to electric *distribution* ratemaking at the PUCO. Today, electric distribution rates are set in two primary ways: 1) base rate cases, and 2) Electric Security Plans (ESPs). Base rate cases are holistic in their approach, opening up the books of the utility for increased scrutiny. ESPs allow for the use of riders, which are additional charges on your monthly electric bill for specific purposes (storm damage, distribution investment, smart meters, etc.), but which are more narrowly reviewed.

Sub. H.B. 317 would establish a balance of both approaches: mandatory rate cases coupled with a new “interim distribution mechanism” (IDM), which serves as a replacement to the outdated ESP statute. The current ESP statute – as well as the current Market Rate Offer (MRO) statute – do not require rate cases, nor do they contain limitations on supplemental charges. Sub. H.B. 317 requires base rate cases at least once every five years. As an example, one Ohio utility has not filed a rate case since 2007 (approved in 2009). Also, the bill provides a statutory cap of four percent (4%) on the IDM and requires approval for each iteration at PUCO. These are new consumer protections that simply do not exist under current law.

What can be part of an IDM? The investments eligible for recovery include those for maintaining or improving safety, reliability, system efficiency, security, or resiliency purposes

(lines 772-774). These categories are subject to the four percent cost cap. The other type of investments includes those that are external in nature and/or not foreseeable by the utility, such as damage caused by weather or costs incurred because a governmental entity required a new highway to be built (lines 780-789). These are not subject to a cost cap because the utility cannot control when a tornado may touch down or a government edict may be declared. Finally, other non-base charges could still be collected as they are today, provided that the utility does not earn a rate of return (i.e., profit), such as the kilowatt-hour tax or universal service fund rider.

Each utility can file an IDM no more frequently than every twelve (12) months and is limited to a maximum amount of three total IDMs. This is very similar to the existing practice at PUCO for drinking water and wastewater utilities (see ORC 4909.172). After this point, the utility would need to file a new base rate case to collect additional charges from customers. Nothing in the legislation limits or removes the utilities' right to file a new base rate case at any time.

The new substitute version of H.B. 317 also contains reforms that update Ohio's rate case process. Notably these include requirements that cases are effectively completed within one year and allow for the use of a fully projected future test year, rather than a historic test year. It is a process that is used in numerous states, including Kentucky, Pennsylvania, Florida, and more, as well as FERC and PJM. While this process is more beneficial to the utility compared to current law, those benefits are offset by the numerous other consumer protections contained in the bill.

Sub. H.B. 317 also makes a long overdue good government reform. Specifically, the bill bans the use of cash payments and side deals to induce settlements at PUCO. The process essentially allows the utility to "buy" votes, something no other party can do. This is not a regular practice in other states and the bill wisely puts an end to it.

Finally, the bill supports the economic development efforts of the state. The bill continues the use of interruptible rate programs that allow for very large electric consumers to provide a reliability benefit to the rest of the state in exchange for a reduced electric bill. When a steel mill, for example, is called upon to shut off their furnace to help prevent a blackout, it is the equivalent of turning off tens of thousands of residential homes. The bill also authorizes other economic development and job retention tools, which are extremely important for maintaining the competitiveness for energy-intensive companies that are competing globally.

There are also new economic development tools created in the bill, including capital lease financing arrangements and economic development transmission. The latter is similar to an existing program for natural gas utilities, where JobsOhio and the Ohio Department of Development can identify ideal areas of the state for luring a new manufacturer or an existing customer looking to expand. The utility can build the necessary infrastructure and customers are protected by a cost cap. This is like going fishing – it is worth spending some money for tackle and bait to land the big fish. And when we do land the fish, everyone benefits, not only

from the jobs but also from having one additional large consumer to help split the fixed costs of the electric grid.

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.