



Before
The Ohio House of Representatives
Policy and Legislative Oversight Committee

Testimony

By

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Good afternoon Chairman Dovilla, Vice-Chairman Buchy, Ranking Minority Member Gerberry and members of the House Committee on Policy and Legislative Oversight. Thank you for inviting me to testify today on issues that include affordable electricity for Ohioans. I am Bruce Weston, the Ohio Consumers' Counsel. The Office of the Ohio Consumers' Counsel (OCC) advocates on behalf of 4.2 million Ohio households regarding their investor-owned¹ electric, natural gas, telephone and water services

I appreciate the Committee's objective of affordable electricity for Ohioans, as stated by Representative Dovilla. Ohio has been in a long (fourteen-year) transition to market prices for

¹ My testimony relates to consumers served by Ohio's investor-owned electric utilities (and not public power systems).

electric generation, since Senate Bill 3 in 1999. Five years ago Senate Bill 3 was supplemented with Senate Bill 221.

Opportunities for Consumers to Have Affordable Electricity under Ohio's Current Framework

Ohio law contains some important provisions that can protect, or have the potential to protect, Ohioans' electricity bills. Those provisions include the following for consumers:

1. The intention for market pricing of utilities' electric generation service;
2. Opt-out governmental aggregation; and
3. Choices among suppliers for electric generation.

Market Pricing

The standard service offer is the generation price that is set either through a market rate offer or an electric security plan. The standard service offer is important to customers for three reasons. First, with the use of a wholesale market auction, the standard service offer price can be favorable for customers under the historically low prices in the current electricity market. Second, it is a default price option for generation service if customers choose not to shop for other electricity offers or if such shopping is unavailable to them. Third, the standard service offer has been a useful price-to-compare for customers who are considering other choices.

Regarding the first point, it is unfortunate that, fourteen years after the passage of Senate Bill 3, many Ohioans are not benefiting from the current low market price for electricity. Customers of AEP,

Dayton Power and Light, and Duke Energy are all paying above-market prices for electricity (while FirstEnergy's customers are benefiting from market prices).²

Governmental Aggregation

Local governments, such as cities, counties, townships and villages, may obtain greater buying power with electricity suppliers by combining the electricity purchases of their individual residents and businesses. This greater power from buying in bulk can be used by a local government toward obtaining lower priced electricity. After the passage of Senate Bill 3 in 1999, northern Ohio has had one of the largest governmental aggregations in the country.

Choices for Consumers

Under Ohio law, the utilities' distribution systems (the wires business) remain monopolies. But the electricity that flows through the wires can be supplied by any qualified supplier. Senate Bill 3 allowed suppliers to become certified and then compete for customers by offering generation service to them. In this competition, the suppliers' offers can be compared to the electric utilities' standard offers (which are known as the "price to compare"). It is good for consumers to have choices. And it is good for consumers making choices to have the utilities' standard offers as a reference point. Some suppliers who compete against the utilities would like to eliminate the standard offer for consumers. But this reference point of the standard offer is a key consumer safeguard that should be preserved.

² Customers of Duke Energy are benefiting from market pricing of generation, but they are also paying a non-bypassable generation charge (that is above market). And Duke's customers are also at risk from Duke's pending request to collect additional charges for generating capacity.

Other Issues for Affordable Electricity

Given the Committee's commendable focus on affordable electricity, I will discuss several obstacles to achieving that objective for Ohioans. Unfortunately, the 2008 law allows electric utilities to charge rates that result in excessive earnings. The law merely limits utilities from charging customers for "significantly" excessive earnings. (O.R.C. 4928.143(F)) The law should be changed back to a traditional approach where consumers could be protected from paying for excessive earnings by utilities.

Second, it would be better for Ohioans if electric utilities were not allowed to, in effect, "veto" PUCO decisions that set the standard-offer price that electric customers pay. (O.R.C. 4928.143(C)(2)(a)) This veto can be exercised by utilities after many months of analysis have been devoted to the process of determining the pricing of electric service for consumers and businesses. And, in any event, the veto (or just the specter of a veto) could negatively affect the balancing of the stakeholder interests for the setting of Ohio electric prices. The law should be changed to eliminate the opportunity for this utility control over PUCO decision-making in the ratemaking process.

And, as already stated, it would be better for Ohioans if, fourteen years after the 1999 enactment of electric restructuring, all Ohioans were benefiting from the current low market price for electricity. It is unfortunate that many Ohioans are paying above-market prices for electricity. In this regard, it appears that Ohio has experienced the largest increase in the average residential price of electricity among the states that have restructured their electric utilities.

Generation Resources in Ohio

The invitation to this hearing included a concern regarding the sufficiency of generation resources in Ohio. It was noted that there have been closures of coal plants. When Ohio restructured its electric industry, the role of the regional transmission organization increased in prominence for generation capacity. This organization, PJM, has processes, including a pricing model, for capacity. Through its processes, PJM now is the primary determiner of resource adequacy for the entire PJM region including Ohio.³

As indicated, the deregulated model is the current direction in Ohio. Ohio's largest electric distribution utilities have either already spun off generation assets to an unregulated subsidiary or are in the process of doing so. Unregulated generation companies can build baseload generation in Ohio that they deem to be economic over a long time period and that private investors are willing to fund. Ohio will need to focus efforts toward ensuring the PJM wholesale energy and capacity markets provide generation supplies in an affordable and cost-effective manner.

As generation in Ohio becomes increasingly more competitive, the Ohio model is one where the electric distribution utilities would be in a position to procure a least cost mix of demand-side and

³ The exception to this rule is if the utility opts to become a Fixed Resource Requirement (FRR) entity. As an FRR, the utility must commit to self-supplying all of its own capacity needs for a period of 5 years. Therefore, utilities must either obtain 100% of their capacity from the PJM market or from their own supplies. AEP is the only FRR entity remaining in Ohio. AEP's 5-year FRR term is slated to end at the end of the current electric security plan, at which point all Ohio utilities will be subject to obtaining 100% of their capacity from the PJM market.

supply-side resources. Consistent with Ohio law, OCC supports the utility procurement of least cost, low-risk electricity options on both the demand and supply side.⁴

Additional Thoughts

The landscape of the electric utility industry is dynamic and rapidly changing. These changes, including technological change, can affect the affordability of electricity for Ohioans in the future.

1. **Smart Grid:** Three of the four Ohio electric utilities are installing smart grid technology in their service territories. Smart meters may allow a utility to reduce both its capacity and energy demand by enabling the development of time-differentiated and dynamic rate designs. Automation of distribution service can improve distribution reliability.⁵
2. **Community Energy Storage:** The technology for storage (including batteries) is evolving. Storage could become an increasingly significant resource for serving customers.
3. **Demand Response:** Demand response uses technology for adjusting (reducing) customer loads when the electric grid is stressed.
4. **Distributed Generation:** Customer generation using technology on the customer's side of the electric meter is growing as a resource.

As has been seen in telecommunications, technology has the potential to bring benefits to customers, including in ways that cannot be predicted. In this regard, the Committee may want to consider the

⁴ The least expensive resource in Ohio is energy efficiency.

⁵ However, the benefits of the smart grid and these other technologies need to outweigh the costs for consumers.

formation of a legislative task force to study, over time, the issues it is considering in these oversight hearings.

Again, thank you for inviting testimony from the Office of the Ohio Consumers' Counsel with our consumer perspective on the important issue of affordability and reliability of Ohioans' electric service.