SHOULD RATEPAYERS SUBSIDIZE UNECONOMIC ASSETS IN RESTRUCTURED MARKETS?

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GENERATING PLANTS:IN AND OUT AND IN AGAIN

- Proposals to require ratepayers to support generating plants that are (apparently) not able to make enough money for shareholders in the wholesale market are on the table in several restructuring states:
- ILLINOIS: Exelon nuclear plants
- OHIO: FirstEnergy and AEP coal and nuclear plants
- NEW YORK: Exelon and Entergy upstate nuclear plants

ILLINOIS PROPOSAL

- ComEd submitted legislation in the 2015 Illinois legislative session (HB 3293) to require ratepayers to pay an increased charge for "low carbon emission credits."

- The Attorney General estimated this would transfer $300 million from consumers to Exelon annually and costs would increase to $1.6 billion through May 31, 2021.

- This proposal died at the end of the session and has not yet been formally introduced this year. Even after some favorable PJM auctions in late 2015, Exelon is again publicly talking about the need for ratepayer subsidies. [http://www.chicagobusiness.com/article/20160203/NEWS11/160209920/exelons-crane-beats-the-drum-again-for-nuke-subsidies]

OHIO PROPOSAL

- FirstEnergy and AEP submitted proposals to the Ohio PUC to require ratepayers to purchase the output of certain aging coal and nuclear plants with a long term Power Purchase Agreement and then get either a credit or charge based on what the plants actually earned in the wholesale market.
- "Retail Rate Stability Rider"
- Stipulation pending at PUC after evidentiary hearings.
- Exelon and Dynergy have publicly claimed they could provide the electricity from the FirstEnergy plants at a lower cost from its cleaner nuclear and natural gas plants.

NEW YORK

- Governor Cuomo asked the New York PSC to develop a Clean Energy Standard that would provide ratepayer support for several upstate nuclear plants owned by Exelon and Entergy on the grounds that the zero emission plants are need to achieve the "clean" energy standard of 50% renewable portfolio by 2020. [Assuming that loss of nuclear plants would incent more natural gas plants and make the 50% goal harder to achieve.]
- PSC has proposed to develop a new Zero Emissions Credit that would require ratepayers to pay the difference between the costs to operate and the wholesale market revenues for the plant.
- Rochester Gas & Electric customers already ordered to pay a Reliability Support Services Agreement or surcharge to support Ginna plant until the new Clean Energy Standard is adopted for support for qualified plants by all New York ratepayers.
- No cost estimates in the PSC proposal. No evidentiary hearings; rather, "technical conferences" planned.

TOO BIG TO FAIL

- One of the major themes from proponents for restructuring was to shift the risk of uneconomic generating facilities to shareholders and not ratepayers.
- Then—coal and nuclear power were low cost. Now—coal and nuclear are expensive and natural gas is cheaper.
- Were we naïve to believe that justification about shifting risks? Do the local attributes of jobs, control over "in state" facilities, claims of "low carbon emissions" and threats of dire consequences for reliability of service "trump" the theoretical benefits?
- Are ratepayers always going to pay—is this "heads I win; tails, you lose"?

DRESSING UP THE PIG

- We need nuclear plants to operate to ensure "low carbon" or "zero emission" facilities to offset the potential for more polluting (though cheaper) power plants fueled by natural gas.

- We need to keep these plants operating (coal and nuclear) because they are baseload and needed for long term reliability of service.

- We need to keep the plants operating to preserve jobs and local economies depend on these facilities.

- We will provide customer benefits in the form of funding public purpose programs if you accept our deal. [The most recent stipulation in Ohio (#IV) includes commitments for carbon emission reductions, new renewable investments, customer credits to "share risks", and increased funding for low income weatherization and assistance.]

THE REALITY IS TROUBLING

- Stranded Costs: How many times must we pay for the same plants?
  - The Illinois AG stated that Illinois ratepayers had already paid $5.58 **billion** in stranded costs for the Illinois nuclear plants at the time of restructuring.
  - The Ohio Consumer Counsel: Proposed FirstEnergy deal is a "…second bite at the stranded cost apple, contrary to the laws of Ohio." Ohio ratepayers have already paid $6 **billion** to cover FirstEnergy's stranded assets in a 2008 case. [http://www.pri.org/stories/2015-09-19/ohio-power-company-wants-reverse-deregulation-it-once-fought]
  - New York: We don't know because there has been no evidentiary hearing and none are planned!

- Promised "Benefits:"
  - Speculative future scenarios about wholesale market prices of natural gas and payments for reliability of affected plants makes the predicted credits or charges to customers useless.
  - Can the companies close these plants at any time? You betcha!
  - Why would we think these promises or estimates of future energy prices are any better than the last ones?
  - The bottom line is that risks are shifted back to ratepayers, the exact opposite of what was promised with restructuring.

MORE REALITIES

- Wholesale Market Implications: Is the RTO and wholesale market only to be relied upon when its suits the profits of the generating plants? These proposals appear to assume that the wholesale market will not be allowed to work and threatens the "house of cards" that currently exists in this highly regulated market. PJM has raised concerns in the Ohio hearings. Several formal complaints pending at FERC.

- Retail Regulatory Authority Implications: These long term deals are not accompanied with the traditional regulatory oversight to protect consumers from imprudent or improper costs.

- Let's Make a Deal: The politics of these proposals mean that regulators are not really in charge.

A RADICAL SUGGESTION OR TWO

- If the politicians determine these plants need to be supported for jobs, emissions, or other public purpose reasons, they should be supported by taxpayers and not ratepayers. Issue a bond. Increase taxes.

- Let's not continue the hypocrisy of a "restructured" electricity market. These proposals are the natural result of long standing mandates at the state level that intend to impact the generation price and generation mix with subsidies that are imposed on the "regulated" distribution portion of the bill:
  - Efficiency mandates
  - Renewable Energy portfolios
  - Distributed Generation and Solar Mandates (funded by net metering)
  - "Clean energy" or carbon emission standards