The Ohio Manufacturers' ASSOCIATION

OHIO'S ELECTRIC UTILITIES' ABOVE-MARKET CHARGES ARE ANTI-COMPETITIVE FOR OHIO'S CONSUMERS

Ohio's 17-year transition from a regulated to a competitive market for electric generation is providing electric customers unprecedented options for shopping for – and saving on - generation service. The competitive market is working.

Market-based pricing is delivering customer choice, investment in new energy technologies, and innovative energy services. Competition is driving electricity costs down for families and businesses. Substantial investment in new generation is underway in our state, improving energy efficiency and reliability, and reducing environmental impacts.

A recent study conducted jointly by Cleveland State University and The Ohio State University found that since 2011, electricity shoppers and non-shoppers in Ohio have saved more than $16 billion as a result of market-priced electricity -- more than $3 billion a year.

Competitive markets dispatch the least cost power producer first and highest cost producer last in order to meet the instantaneous demand for energy. The hourly energy prices are set at the cost of the last plant dispatched to satisfy demand. With the demand for energy flat due to successful energy efficiency measures, uneconomic plants are not getting dispatched and, therefore, prices remain low. Independent generators and their lower-cost natural gas-fired power plants are further driving costs down (one benefit of Ohio's extensive shale gas deposits). Within this economic dispatch model traditional electric utilities heavily reliant on aging, uneconomic plants are finding it difficult to compete.

Deregulated pricing requires utilities to develop default rates (the rate paid by customers who choose not to shop) based on wholesale market prices for energy, rather than on the cost of goods, as was the case for decades. Electric generators with high costs due to aging, uneconomic power plants cannot recover enough revenues from market-based rates to recover their costs.

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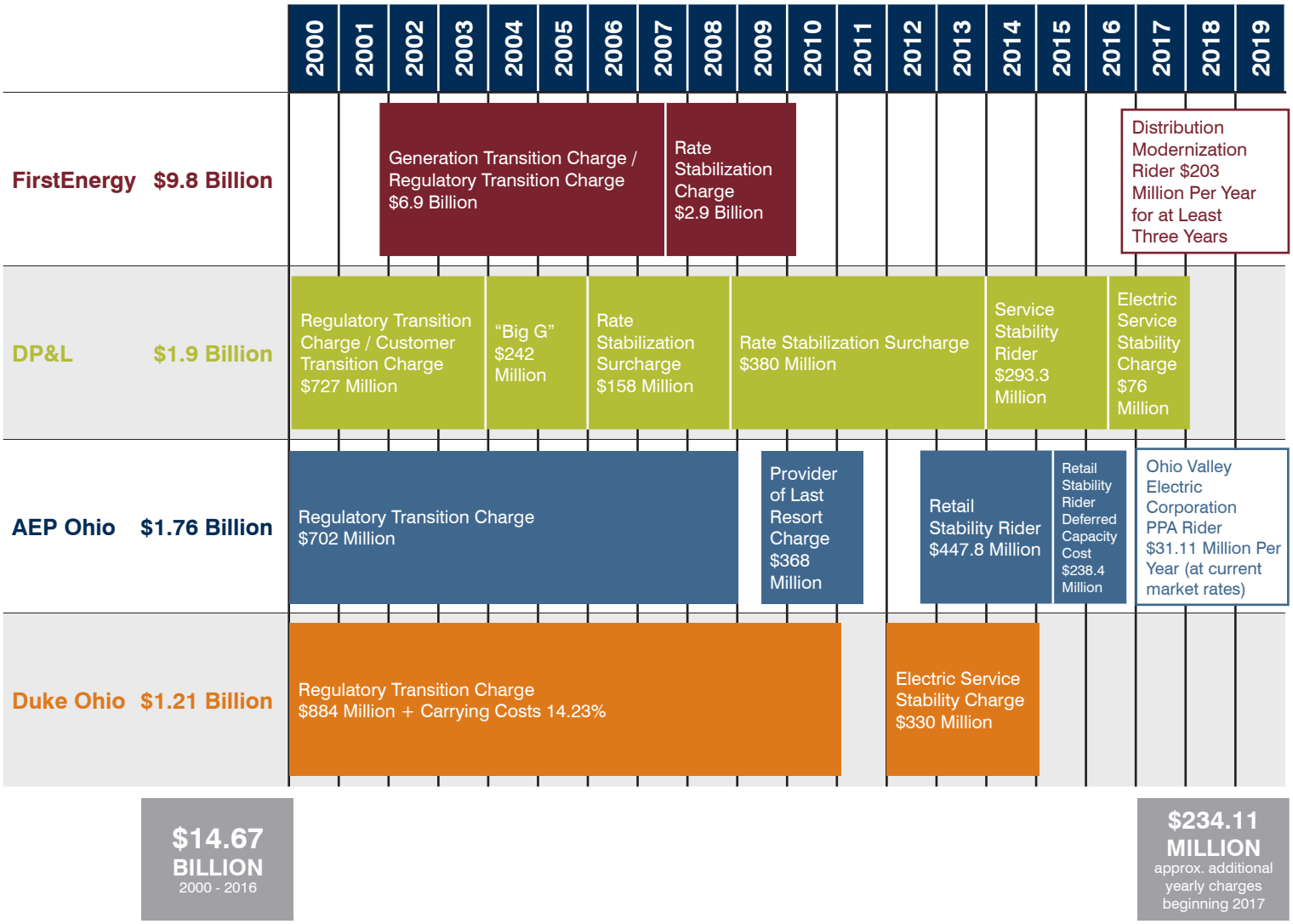
In response, Ohio utilities are proposing to protect their futures in two major ways: (a) seeking legislation to return to a form of monopolistic electricity pricing, and, in the interim, (b) continuing to force customers to pay billions of dollars in above-market charges.

According to the Office of the Ohio Consumers' Counsel, from 2000 to 2016, Ohio's electric utilities collected $14.67 billion in above-market charges from all customers regardless whether the customers were purchasing generation supply from a competitive supplier. Most of these charges were approved to help the utilities manage through the transition from regulated pricing to market-based pricing.

SUBSIDY SCORECARD - ELECTRIC UTILITY CHARGES TO OHIOANS

PUCO-APPROVED ABOVE-MARKET ELECTRIC UTILITY CHARGES SINCE 2000



SOURCE: OFFICE OF OHIO CONSUMERS' COUNSEL

Utilities continue to prevail in Public Utilities Commission of Ohio (PUCO) cases, resulting in new non-bypassable riders on customers to generate revenue needed to ameliorate the utilities' (or their parent companies') cash-flow problems and/or improve their profitability. In late 2016, the PUCO issued two rulings authorizing the collection of more than $1 billion of ratepayer money to prop up the corporate earnings of FirstEnergy and allowing an "unknown" amount for subsidies for unregulated AEP Ohio generation. In addition, Dayton Power & Light has a pending PUCO case that if approved would cost its customers another $625 million over five years.

This most recent round of non-bypassable riders comes at a time when the market is delivering robust benefits. These cases were all filed to keep inefficient and uneconomic utility power plants operating, essentially to prop up the value of the corporations, with no associated consumer benefits. For example, the PUCO has acknowledged that FirstEnergy's PUCO-approved Distribution Modernization Rider will not fund any specific modernization projects, but, instead, is an incentive that will prop up FirstEnergy's credit rating.

Approximate Estimated Costs to Manufacturers for FirstEnergy's Distribution Modernization Rider

Manufacturer Size	Consumption (kWh/year)	FirstEnergy		
		Annual Cost Estimate*	Total for 5-year DMR*	Total for 5-year DMR w/o tax gross up
Small (~$100k/yr in electricity costs)	1,000,000	$3,747	$18,735	$12,178
Medium (~$600k/yr in electricity costs)	7,500,000	$28,102	$140,510	$91,332
Large (~$6 million/yr in electricity costs)	100,000,000	$374,694	$1,873,468	$1,217,754
Extra large	1,000,000,000	$3,746,936	$18,734,681	$12,177,543
Territory total		**~$203 Million**	**~$1.019 Billion**	**~$662.5 Million**

**Assumes 35% Corporate Tax Gross Up*
Distribution Modernization Rider approved by PUCO in October 2016

Approximate Estimated Costs to Manufacturers for DP&L's Proposed Debt-Relief Settlement

Manufacturer Size	Consumption (kWh/year)	Estimated Annual DMR/DIR-B Cost ($)	Estimated 5-year DMR/DIR-B Cost ($)
Small (Secondary Service)	1,000,000	$8,265	$41,327
Medium (Secondary Service)	7,500,000	$59,598	$297,988
Large (Primary Service)	100,000,000	$375,144	$1,875,718
Extra large	1,000,000,000	$3,749,744	$18,748,719

Dayton Power & Light (DP&L) has requested that its Distribution Modernization Rider (DMR) and Distribution Investment Rider (DIR-B) provide $125 million per year for five years.

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ABOVE-MARKET CHARGES ARE OFFSETTING LOWER GENERATION COSTS

A logical conclusion of seeing historically low wholesale and retail electricity generation prices might be that Ohioans have overall lower electric bills. But, in fact, due to the imposition of these non-generation-related utility charges, the overall cost of electricity is not going down. The utilities' non-bypassable above-market charges are dampening the benefits of lower deregulated generation costs.

THERE IS NO SHORTAGE OF GENERATION

In recent cases before the PUCO, utilities have argued that if Ohio does not approve their proposed above-market cost riders, the utilities' affiliated generation facilities will shut down, threatening the availability and affordability of electricity for Ohioans. The utilities claim that rejection of proposed new riders would send a clear message to the marketplace discouraging investment in new generation assets in Ohio.

They claim this would further compromise our future energy security – and that adequate supplies of generation can be assured only if customers subsidize continued operation of obsolete, inefficient and unprofitable power plants. The utilities continue to try to convince policymakers, regulators and customers that without guaranteed cost-recovery through some form of customer subsidization, investors will not be willing to take on the financial risk of building new generation plants in Ohio.

This is wrong. Markets are working. The energy and capacity markets operated by PJM Interconnection (the Regional Transmission Operator that manages the electricity grid for Ohio and the region) are sending clear price signals that are attracting substantial investment in new generation. Eight new natural gas-powered plants are in various stages of construction throughout Ohio (and more are on the drawing board). And for the past five years, PJM has procured even more reserve margin than it has targeted. New generation is being built -- just not by Ohio's regulated electric utilities.

Additionally, subsidies for generators to ensure reliability already exist through the PJM construct. PJM provides additional compensation to a generation owner when a unit proposed for retirement must continue operating for reliability purposes. This mechanism is precise in its award of above-market rates to only those assets proven necessary for grid stability.

PROTECT THE DEREGULATED GENERATION MARKET BENEFITS

As consumers' generation charges are dropping, their non-generation charges, which in some cases include dozens of non-bypassable riders, are on the rise – eating away at customers' overall savings with no corresponding benefits. These riders function as a new tax on families and businesses and are a drag on the state's economy.

Moving forward, Ohio needs to maintain the healthy operation of a robust competitive electric generation marketplace that is delivering price benefits to consumers and job-creating energy innovation for the state's economy. The PUCO and the Ohio General Assembly must protect the open, competitive markets created by electric industry restructuring.