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OHIO LEGISLATIVE SERVICE COMMISSION

Office of Research
and Drafting

Legislative Budget
Office

H.B. 798
133rd General Assembly

Fiscal Note & Local Impact Statement

[Click here for H.B. 798's Bill Analysis](#)

Version: As Reported by House Select Committee on Energy Policy and Oversight

Primary Sponsor: Rep. Hoops

Local Impact Statement Procedure Required: No

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Highlights

Fund	FY 2021	FY 2022	FY 2028-FY 2029
Nuclear Generation Fund and Renewable Generation Fund (custodial funds)			
Revenues	\$85 million loss	\$85 million loss	\$170 million gain
Expenditures	\$42.5 million decrease	\$127.5 million decrease	\$170 million increase

Note: The state or school district fiscal year runs from July 1 through June 30 and is designated by the calendar year in which it ends. For other local governments, the fiscal year is identical to the calendar year.

- The bill delays the beginning of a charge paid by electricity customers from January 1, 2021, to January 1, 2022. Similarly, the bill delays the expiration of that charge by one year, to December 31, 2028. The customer charge totals up to \$170 million per year and is deposited into the Nuclear Generation Fund and the Renewable Generation Fund, which are used to compensate electric generating facilities fueled by nuclear energy and select facilities fueled by solar energy. As seen in the table above, the bill shifts \$85 million per fiscal year in revenue from FY 2021 and FY 2022 to FY 2028 and FY 2029, and makes a similar shift of expenditures.
- Requiring the Public Utility Commission of Ohio (PUCO) to conduct an annual audit and financial need assessment could yield reduced payments from the Nuclear Generation Fund in FY 2022 through FY 2029.
- The Ohio Air Quality Development Authority (OAQDA) is permitted to draw up to \$150,000 per year from each fund, subject to Controlling Board approval, to pay administrative costs.

Detailed Analysis

The bill contains various provisions affecting the state energy policy of Ohio. The following sections describe these provisions and estimate their fiscal effects on state agencies and local governments. The bill's principal fiscal impact is on two funds outside the state treasury – the Nuclear Generation Fund and the Renewable Generation Fund. Both are custodial funds to be administered by the Ohio Air Quality Development Authority (OAQDA).

Several of the provisions in the bill modify codified law enacted by H.B. 6 of the 133rd General Assembly. Among other things, H.B. 6 created a charge on customers of electric distribution utilities (EDUs) scheduled to begin January 1, 2021, the receipts from which will be deposited in the Nuclear Generation Fund and the Renewable Generation Fund. Continuing law authorizes those funds to pay the owner or operator of Ohio's nuclear power stations up to \$150 million per year while separately dedicating up to \$20 million per year for solar energy facilities approved by the Ohio Power Siting Board (OPSB) prior to June 1, 2019.

Clean Air Fund rider

The bill delays by one year the customer charge that would otherwise begin January 1, 2021, and terminate on December 31, 2027. The H.B. 6 charge, which is referred to as the "Clean Air Fund" rider in proceedings before the Public Utilities Commission of Ohio (PUCO), was designed to raise \$170 million in calendar year (CY) 2021. The H.B. 798 delay extends the termination date to December 31, 2028, so the total amount of money raised for the two custodial funds administered by OAQDA will not change, but some of the receipts will be received in different state fiscal years.

The owner or operator of a qualifying nuclear resource must file a notice with OAQDA by December 31 each year, starting in 2021, of its intent to participate in the Clean Energy Program. Failure to file such a notice would make the owner ineligible for payments from the Nuclear Generation Fund for the following calendar year.

Annual audit and financial need assessment

Existing law requires PUCO to conduct a retrospective management and financial "review" on the owner or operator of a qualifying nuclear resource and any such resource that receives payments for nuclear resource credits. The bill amends the existing provision to replace PUCO's "review" with a requirement that it complete an "audit, including a financial need assessment and any recommendations." In doing so, PUCO must retain independent consultants and auditors who are knowledgeable and experienced in the particular subject to perform all of the annual audits. The bill requires the owner or operator to provide any information requested by the consultants or auditors, and requires that the information be certified as accurate by the company's chief financial officer.¹

¹ In H.B. 6 the provision of requested information was optional on the part of the company. Somewhat similarly, in H.B. 6, information the company provided in its application to be designated a qualifying nuclear or renewable resource was exempted from public records law. In this bill, OAQDA, in consultation with PUCO, may determine that that information is a public record.

PUCO's annual audit must be completed by July 1 of a given year. The first audit is required to be completed by July 1, 2021, meaning it should be completed prior to any payments to nuclear plant owners or operators. The findings of the audit will determine whether quarterly payments from the Nuclear Generation Fund should be reduced or eliminated over the following year. Specifically, the bill will limit payments "to the amount necessary to increase the net income or profit margin from ongoing operations of the resource from a negative amount to not more than zero for the annual audit period." The findings and recommendations of the audit and PUCO's report must be presented before the standing committees of the House of Representatives and the Senate with primary responsibility for utility legislation. The annual presentation must occur after July 1, beginning in 2021 and ending in 2028.

When OAQDA evaluates these profit margins, it must consider all revenue received from all sources while excluding expenses for "lobbying costs, political or charitable donations, share buybacks, management bonuses, or management incentive compensation." Division (D)(5) of Section 3706.61 of the bill provides specific directions regarding the scope of revenues and expenditures to be included in evaluating the amount by which payments should be reduced (if they should be reduced), and specifies that the audit findings must evaluate expenditures in accordance with generally accepted accounting principles.

The bill annually refunds to ratepayers those amounts left in the Nuclear Generation Fund and the Renewable Generation Fund as of December 31 that were not needed to make required payments. Because the bill's effective date occurs after January 1, 2021, refunds for that calendar year can occur sooner than December 31. Customers would be refunded the amounts collected, minus an amount to meet expenses related to the 2021 retrospective management and financial audit and OAQDA's administrative expenditures. Current law does not permit a refund of unobligated amounts until the scheduled conclusion of payments in 2028.

The two nuclear plants are operated by Energy Harbor Nuclear Corp. (formerly known as FirstEnergy Nuclear Operating Company) and owned by Energy Harbor Nuclear Generation LLC (formerly known as FirstEnergy Nuclear Generation, LLC). Both companies are subsidiaries of Energy Harbor Corp. (formerly known as FirstEnergy Solutions Corp.). LBO staff cannot predict the fiscal impact from the prospective audits because equivalent information about the financial status of Ohio's two nuclear plants is not publicly available.

General information about the plants' owner and operator were disclosed during the recently concluded Chapter 11 bankruptcy proceeding of its parent company. Monthly operating statements for the nuclear plants' owner reported positive net income over the 23-month bankruptcy period while the nuclear plants' operator and parent company both reported net losses over that same duration.² Those operating statements were not solely reflective of Ohio's nuclear plants, as they also included the Beaver Valley Nuclear Power Station in Shippingport, Pennsylvania.

² Refer to Docket #3902, "Debtor-In-Possession Monthly Operating Report for Filing Period Ended February 26, 2020 Filed by Debtor FirstEnergy Solutions Corp." <https://cases.primeclerk.com/fes/Home-DocketInfo>.

Prior to the bankruptcy restructuring, an independent market monitor (Monitoring Analytics, LLC) for PJM Interconnection, L.L.C. (PJM) conducted a “nuclear net revenue analysis” for each power station within the 13-state PJM region. Based on assumptions used for that 2019 study, PJM’s market monitor estimated that the Perry and Davis-Besse power stations would both operate at a deficit in calendar years 2019 through 2021.³ In a later analysis released in November 2020, the market monitor again made similar conclusions.⁴ Nevertheless, it is unclear how the bill’s audit will impact future receipts and expenditures from the Nuclear Generation Fund.

Renewable Generation Fund

Whereas H.B. 6 imposed an application deadline for a qualifying solar-powered electric generation facility, H.B. 798 extends that deadline by one month. Only three of the eligible solar facilities applied to OAQDA by the original deadline on February 1, 2020.⁵ By extending this application deadline, solar facilities in Hardin and Vinton counties could qualify for payments from the Renewable Generation Fund. Those solar projects comprised 445 Megawatts (MW) of the 1,095 MW nameplate capacity among eligible solar farms originally anticipated to receive payments. Therefore, the provision could increase annual expenditures from the Renewable Generation Fund from \$12 million to the \$20 million limit in codified law.

Ohio Air Quality Development Authority

The bill provides guidance language regarding the Authority’s use of money from the Nuclear Generation Fund and the Renewable Generation Fund. The bill directs OAQDA to spend no more than \$150,000 from each fund for a total of \$300,000 annually to pay for its administrative costs. The bill requires OAQDA to seek approval from the Controlling Board before using the money. The annual limit applies to FY 2020 through FY 2029, but Controlling Board approval will not be granted prior to FY 2022. The Authority’s annual costs incurred in FY 2020 and FY 2021 can be included alongside the FY 2022 amounts when OAQDA seeks Controlling Board approval at that later date.⁶

Ohio Power Siting Board

The bill requires OPSB to submit a report to the General Assembly, not later than December 1, 2021, on “whether the current requirements for the planning of the power transmission system and associated facilities investment in this state are cost effective and in the interest of consumers.” The report must include any recommendations for legislative changes to ensure transmission planning is cost effective and in the interest of consumers. The bill

³ Refer to Table 7-41 and Table 7-42 in 2018 State of the Market Report for PJM, https://www.monitoringanalytics.com/reports/PJM_State_of_the_Market/2018/2018-som-pjm-volume2.pdf.

⁴ Refer to Table 7-22 in 2020 Quarterly State of the Market Report for PJM: January through September, https://www.monitoringanalytics.com/reports/PJM_State_of_the_Market/2020/2020q3-som-pjm-sec7.pdf.

⁵ <https://ohioairquality.ohio.gov/Our-Services/Nuclear-and-Renewable-Generation-Programs>.

⁶ The bill does not include any appropriations for the use of these funds, but both funds are custodial funds and not in the state treasury. If the money is not transferred to a fund in the state treasury before expenditures are made, no appropriation would be needed.

enumerates nine topics that OPSB may address when making its recommendations. The report must be completed in consultation with JobsOhio, but OPSB may consult with or request the assistance of PJM, the independent market monitor, and other interested stakeholders. Before completing the report, OPSB must hold at least one public meeting.

The Board does not have a funding source or appropriation for general purpose operating activities. All of its spending is billable to various utilities that submit applications for OPSB's consideration of specific projects. This fee-based system does not appear to offer a funding source for preparing the required report, unless another existing appropriation in the PUCO budget could be used.

Revenue decoupling mechanism

The bill terminates an existing decoupling mechanism authorized by H.B. 6. Revenue decoupling mechanisms preceded that legislation, and several EDUs gained PUCO approval for similar mechanisms in prior years. As of this writing, the H.B. 6 decoupling mechanism (or "Conservation Support rider") only applies to the three FirstEnergy EDUs. The Conservation Support rider could raise tens of millions of dollars annually for an indefinite number of years. The repeal of this legal authority reduces electricity costs of those served by the FirstEnergy EDUs, inclusive of state and local government entities.

Significantly excessive earnings test (SEET)

The bill repeals a provision enacted in H.B. 166 of the 133rd General Assembly that affected EDUs and how PUCO administers the significantly excessive earnings test. H.B. 798 restores the previous law that requires affiliated EDUs to separately calculate their return on equity for their annual SEET proceeding. Beginning with the 2019 SEET, the three FirstEnergy-affiliated EDUs combined their reporting so a singular return on equity, representative of the three EDUs, was submitted to PUCO.

The other EDUs in Ohio are not affiliated, so the bill affects only the three FirstEnergy EDUs that operate under a joint electric security plan (ESP) – Cleveland Electric Illuminating Company, Ohio Edison Company, and Toledo Edison Company. The provision may yield utility refunds for customers, including state agencies and political subdivisions, served by the Ohio Edison Company, but the outcome depends on numerous other circumstances that are not influenced by the bill. For a more detailed description of this provision and related background information, refer to the fiscal note for H.B. 740 of the 133rd General Assembly (H.B. 740 contains the same provision).

Ohio Valley Electric Corporation (OVEC)

The bill requires an EDU with an ownership interest in a legacy generation resource to "make a good faith effort to divest from its legacy generation resource obligations." Such an effort must be made every year beginning in 2022 and ending after 2030, coinciding with the duration for which EDUs' ratepayers can incur costs for OVEC's potential operating deficit. Customers pay for these costs through a rider on their monthly electric bill. In theory, the customers would receive a credit on their bill if PJM's wholesale electricity market rates were higher than OVEC's costs of the power, but this circumstance will not occur under current market conditions.

Prior to H.B. 6, the three EDUs with an ownership interest in OVEC separately levied an electric bill rider that recovered costs from their customers. Beginning in 2020, those riders were replaced by a singular, “legacy generation rider” that applied to every EDU customer in Ohio. The prior OVEC riders were authorized under ESPs approved by PUCO, and one condition for implementing the OVEC rider was that EDUs annually report on their continued reasonable efforts to explore divestiture of their OVEC asset. If the EDUs were successful in discharging their OVEC obligations, the riders paid by customers would terminate. The EDUs’ ensuing reports filed with PUCO show that they did not receive any offers in response to their continued efforts.

Renewable portfolio standard

The bill excludes certain renewable energy sources from being eligible for compliance with the ongoing renewable portfolio standard (RPS). The bill limits certain generators using select fuel sources to those interconnected to the electrical grid under the operational control of PJM. Prior renewable energy credits (RECs) derived from these fuel sources prior to the bill’s effective date may be applied toward the RPS for five years after they were generated. No further RECs will be awarded after the bill’s effective date. Based on a survey of PJM’s Generation Attribute Tracking System,⁷ at least three generators certified by PUCO meet the bill’s criteria:

1. A 94.6 MW steam turbine generator fueled exclusively by waste exhaust heat from Cokenergy LLC’s adjacent coke plant located in East Chicago, Indiana (PUCO Case No. 15-1148-EL-REN);
2. An 88 MW biomass cogeneration system located at Domtar Paper Company’s paper manufacturing mill in Hawesville, Kentucky (PUCO Case No. 09-0695-EL-REN);
3. A 31 MW steam turbine generator located at Verso Corporation’s pulp and paper mill in Quinnesec, Michigan (PUCO Case No. [14-0432-EL-REN](#)).

The combined nameplate capacity of the above facilities is 1.9% of the capacity for all renewable generators eligible for Ohio RECs. This provision may incrementally increase the costs of RECs, and thereby increase incrementally the RPS costs passed through to ratepayers, including the state and political subdivisions.

⁷ <https://gats.pjm-eis.com/gats2/PublicReports/GATSGenerators>.