

Testimony to the Senate Public Utilities Committee on Senate Bill 58

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Good afternoon Chairman Seitz, Vice Chair LaRose, Ranking Member Gentile and members of the committee. My name is Amanda Woodrum and I am a researcher for Policy Matters Ohio. Policy Matters Ohio is a nonprofit, nonpartisan organization with the mission of creating a more prosperous, equitable, sustainable and inclusive Ohio. My work focuses largely on energy issues and sustainable economic development. Thank you for the opportunity to testify today regarding Senate Bill 58.

Energy fuels Ohio's economy. In 2011, Ohioans spent \$51 billion on energy to fuel our industry, businesses, homes, and cars. This is no small amount. It is roughly equivalent to 10 percent of our state's gross domestic product. While Ohio does produce some energy, it pales in comparison to the amount of energy we consume. Most of our energy, roughly 75 percent, is purchased outside the state or country. This is a huge drain on Ohio's economy.

Electricity use accounts for 44 percent of Btus employed in our economy, but most of that energy is wasted – more energy is lost during generation and transmission of electricity than actually reaches the end user. Ohio's electric power sector operates at 31 percent efficiency, which means that for every three lumps of coal you only get one out. Not many business markets can get away with this level of efficiency in their core product. Inefficiencies in the electric power sector represent an enormous waste of scarce resources and cause unnecessary upward pressure on energy prices.

This is why we supported provisions in Senate Bill 315, designed to encourage the development and use of combined heat and power (CHP) technology, a much more efficient way to produce electricity. Ohio ranks in the top five states for potential use of CHP technology, but 44th in the nation for its adoption. SB 315, passed by this body, was signed into law just one year ago.

The CHP provisions of this bill will be significantly undermined if SB 58 is enacted in its current form. The continued questioning of Ohio's clean energy laws has already stalled CHP development in Ohio. SB 58 would allow Ohio's energy-intensive industries to completely opt out of Ohio's energy efficiency standard requirements, permit utilities to count efficiency improvements at their horribly inefficient existing plants to qualify without the existing 60 percent efficiency minimum already in the law, and cap efficiency investments at 2013 levels, thereby eroding any value gained by incorporating CHP into last year's energy efficiency law.

The vast majority of electric-system losses occur during generation. Ohio's electric system is so inefficient largely because it burns coal in remote, centralized locations. As you can imagine, burning massive amounts of coal produces incredible amounts of heat, but that heat is currently lost. If we could capture that heat and use it in the manufacturing sector, to mold metal for

instance, we would reduce the need for manufacturers to purchase fossil fuels to burn on site. Since coal plants are mostly in remote locations and not near industrial centers, we cannot put to good use the heat those plants generate and waste. Heat does not travel well and the energy is wasted. Again, for every three lumps of coal we put in, two are wasted.

Because CHP technology is located near the end user, it's what we call a distributed form of electricity generation. CHP captures heat created during the generation of electricity and puts it to good use.

The first target for CHP adoption is the manufacturing sector, which remains the heart of Ohio's economy despite significant job losses over the past few decades. This sector employs approximately 660,000 workers in good-paying jobs, more than any other part of Ohio's economy. Manufacturing uses an enormous amount of energy, making it vulnerable to volatile fossil-fuel prices. Ohio's energy-intensive manufacturing sector ranks fifth in the nation for the amount of energy it consumes and accounts for almost one-third of all energy used in Ohio. Almost half the Btus used by the industrial sector come through Ohio's inefficient electric power sector.

Electricity powers Ohio industry's electric motors, conveyer belts and welding tools; it lights and cools buildings. Because of this dependency, manufacturers often balk when electricity prices rise, and many secure special arrangements from utility companies that are subsidized by residential and commercial consumers. Because of these corporate subsidies, the average rate for residential customers is more than double what manufacturers pay for electricity.

We all benefit from a strong manufacturing sector. In 2007, we recommended that manufacturers be allowed to opt out of efficiency surcharges, but only if they invested the money they otherwise would have paid to the utility in the efficiency of their own equipment. Many manufacturers now say they have done everything possible to become energy efficient and should be allowed to opt out of efficiency requirements

Unfortunately, these claims don't hold up. Manufacturers tend to make only those efficiency investments that have fast payback periods and generate high returns on investment; arrangements made with utilities for artificially cheap electricity get in the way of efficiency investments by lowering their rate of return. Also not considered are the costs borne by other Ohio ratepayers who end up subsidizing low rates for these companies. Finally, manufacturers lack expertise on energy efficiency and CHP. This is why it is so important the Ohio's electric utilities have an incentive to work with manufacturers to identify opportunities to save energy. In addition to other benefits, efficiency investments reduce manufacturers' vulnerability to volatile fossil fuel prices, and lower the need for ratepayer subsidies to industry.

Ohio has a wonderful resource in the University of Dayton Industrial Assessment Center, which conducts energy assessments of manufacturing plants. In an analysis of the center's data, we found that auditors made 6,000 recommendations that would have saved more than \$100 million each year. More than 15 percent of the recommendations had no cost, and the average efficiency investment had a payback of less than a year. The Midwest Clean Energy Application Center, which analyzes CHP opportunities at manufacturing plants, is another great resource.

An example of a special arrangement for subsidized electricity rates has been in the news recently. Ormet Corp., an aluminum production company based in Hannibal, Ohio, announced that it will shut down its plant and layoff 600 people if it does not get an even larger subsidy from ratepayers than the nearly \$350 million in subsidies it has already received.

It is not in Ohio's interest for Ormet to shut down. That's why it's so important to think about how Ohio can avoid this situation in the future. In order to get any new special arrangement funded by ratepayer subsidies, Ormet and companies like it should be required to undergo industrial assessments by the University of Dayton and evaluations of CHP opportunities by the Midwest Clean Energy Application Center. These companies should then commit to investing in recommendations made.

In order to help Ohio compete in an energy-intensive global economy, where energy resources will become increasingly scarce, we must invest to make Ohio's manufacturing sector leaner and cleaner. No industrial customer should be allowed to opt out of Ohio's efficiency laws if they have a special arrangement subsidized by ratepayers. And no industrial customer should be allowed to opt out without verification from both the University of Dayton Industrial Assessment and the Midwest Clean Energy Application Center that there are no efficiency or CHP development opportunities. We also recommend that rather than allowing industry to opt out completely, the monies be set aside within the CHP and industrial efficiency programs of Ohio's Advanced Energy Fund.

It is important to note that it does not make any more sense to cap investments in energy efficiency at 2013 levels than it does to cap rates for electricity services at 2013 levels. There is already a requirement in place that efficiency investments be cost effective. If there has to be any other limitation on investments in energy efficiency, they should at least be tied to the rate of inflation in electricity prices.

Finally, in 2007, we recommended that utility companies not be penalized if they do not meet their renewable energy and efficiency requirements. The concern then was that the market would not be developed enough to meet the benchmarks. We argued that if that was indeed the case, utilities should be allowed to make alternative compliance payments into Ohio's Advanced Energy Fund, operated by what was then known as the Ohio Department of Development. The idea is that if the market isn't there, then the funds should go toward developing the market, and the energy office of ODOD was the right way to do it. This is the law and it is fair. Utilities should meet their benchmarks or allow the state to incentivize clean-energy industrial development. There is no need to change the law to make it optional.

Thank you for your interest and attention, and I am happy to answer any questions.