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12-3151-EL-COI

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NAME: Mr. Jeff Smith

CONTACT SENDER ? Yes

MAILING ADDRESS:

- 9305 W. Hollywood Drive
- Oak Harbor , Ohio 43449
- USA

PHONE INFORMATION:

- Home: 419-957-1965
- Alternative: *(no alternative phone provided?)*
- Fax: *(no fax number provided?)*

E-MAIL: jeffmsmi@umich.edu

INDUSTRY:Electric

ACCOUNT INFORMATION:

- *(no utility company name provided?)*
- *(no account name provided?)*
- *(no service address provided?)*
- *(no service phone number provided?)*
- *(no account number provided?)*

COMMENT DESCRIPTION:

In case number 12-3151-El-COI, the Commission outlines a variety of questions in an effort to determine "the health/strength/vitality of Ohio's retail electric service market and actions that the Commission may take to enhance the health/strength/vitality of that market..." The purpose of the investigation was primarily to evaluate electricity constraints which have led to substantial price increases in several parts of the state. In fact, as the Commission notes, there is increasing concern that, for the first time Ohio will experience insufficient generation capacity to meet

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demand and reliability requirements. Yet, the original fourteen questions focused exclusively on market design and the effectiveness of the “hybrid approach,” the Commission did not adequately consider re-regulation as an option to resolve capacity shortage issues. If the primary purpose of deregulation is to lower utility prices for consumers, there is no clear consensus that deregulation accomplishes that goal. In fact, a number of studies indicate that prices actually increase in a deregulated environment; at best, results have been mixed. However, the mere fact that there is no clear consensus whether deregulation leads to decreased costs is enough to conclude that deregulation fails to substantially reduce electricity prices and any cost reduction for residential customers is, on average, marginal at best. Further, any marginal savings is off-set by the potential disastrous consequences of under-investment in generation capacity. All deregulated electricity markets inevitably lead to “the missing money problem.” The missing money problem occurs when clearing prices are reduced below the level required to cover generation and reserve capacity costs. There are a variety of causes for the missing money problem but the result is the same, reliability concerns due to underinvestment in generation. As base-load generation plants are no longer economically feasible to operate, they will increasingly be decommissioned. This is currently a major concern in Ohio, which has led Ohio-based utilities to petition the Commission for partial re-regulation for several large base-load generators. Markets simply do not adequately factor reserve capacity into rates. As a manufacturing intensive state, Ohio needs to ensure it has adequate supplies of affordable and reliable electricity. Ohio is currently a net importer of electricity, relying on neighboring states to supply a significant portion of its capacity requirements. As additional base-load facilities within the state are in danger of being decommissioned, Ohio will become increasingly vulnerable. Similarly, deregulation leads to increased strain and congestion in the transmission system. As local capacity diminishes, electricity will increasingly need to be imported from distant sources. Transmission of electricity over long distances is not only inefficient due to “line loss” but the existing transmission system was never designed for these capacity constraints. Problematically, this overuse can cause overheating and failures. Therefore, to put Ohio’s vulnerability in perspective, not only does the state rely on neighboring states for its electricity but it also relies on increasingly strained transmission to deliver the power. Electricity deregulation has caused several well-documented failures, most notably California. Since then seven states have suspended their deregulation programs. Recently, Ohio’s governor John Kasich opined, “[t]he ideological effort to deregulate, I’m not so sure it’s the smartest thing we’ve done in the State of Ohio.” To avoid these words becoming disastrously prophetic, Ohio needs to follow the example of other states that have reversed their deregulatory course. Re-regulation would reinstall predictability into electricity markets. It would allow regulators to ensure that generation capacity adequately balances demand. It would promote a diverse and balanced fuel-mix as a hedge against otherwise volatile fuel prices. Most importantly, it would ensure that Ohio does not become the next chapter in deregulation’s failed history.