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Report: Ohio electric restructuring raises rates for residential customers

By Stephanie Tsao

An Ohio State University report says the design of electricity markets in Ohio leads to inflated charges for residential customers and could be improved by relying solely on a competitive bidding process. The Feb. 11 report "Do Markets Make Good Commissioners?," released by Ohio State University's John Glenn College of Public Affairs, finds that Ohio's electricity markets have not fully deregulated despite adopting legislation in 1999 to restructure. In fact, certain residential customers who choose alternate suppliers, also known as standard service offer, or SSO, customers can pay higher-than-necessary electricity prices, according to the report.

The report's authors recommend that the state shift entirely to market-based prices, known as market rate offers, to set generation prices for SSO customers, who in 2015 formed anywhere from 33% to 72% of seven primary utility service areas in the state. Democratic Governor Ted Strickland in 2008 signed SB 221, which implemented deregulation by letting distribution companies choose whether to set electric rates competitively or through electric security plans, or ESPs, to set SSO rates.

ESPs allow electric rates for residential customers to be set by a mix of competitive and regulated means. The generation cost portion of the plan is set by an auction called a competitive bidding process, or CBP, but the ESP can also include riders regulated by the Public Utilities Commission of Ohio, or PUCO. Under the plans, utilities can seek to recover costs through a rider that enables them to collect generation capacity revenue requirements based on PJM's modeled clearing prices. Other riders can cover the costs of transmission, maintenance and reliability investments. The cost-recovery mechanisms lead in many cases to residential customers paying inflated electricity prices, the report finds.

Paying twice

"Customers are paying for 100% of their generation costs in the price that the CBP auction clears at, but then they are also repaying for generation under the line items that recover costs for generation," John Glenn College of Public Affairs Assistant Professor Noah Dormady, the lead author of the report, said in a March 16 interview. Regulated utilities that seek cost-recovery through riders also have merchant arms selling the power into the wholesale market operated by PJM Interconnection. For example, American Electric Power Co. Inc. subsidiary AEP Generation Resources houses about 2,700 MW of merchant coal capacity that it sells into PJM.

The report authors recommend that the state move entirely to a market rate offer design, where the least-cost generation selected in a CBP auction sets the electricity price. They also recommend that policymakers require utilities to fully divest their generation assets as a "safeguard" to prevent possible double-charging of generation costs to customers. Under Ohio's current restructuring design, utilities did not have to divest their generation, but instead, could move them within a subsidiary. The report cited the Cincinnati area, powered by Duke Energy Corp. subsidiary Duke Energy Ohio Inc., as a territory that enjoyed lower prices in part because of Duke's divestiture of its generation business in Ohio.

"Functional separation would weaken utilities' incentive to inflate customer costs through riders and surcharges to offset generation losses," a policy brief released with the study said.

Ohio's current design has "adverse effect" on the competitiveness of the 13-state PJM market because it allows Ohio generators that have cost-recovery mechanisms to bid against other generators that do not, Dormady claims.

Benefits 'muted'

The report authors recognize the benefits of electric choice, but found that ESPs allow surcharges and tariffs that mute the benefits to customers. In AEP subsidiary Ohio Power Co.'s service territory in Columbus and Canton, for example, about 20 riders together form more than 50% of a residential customer's total bill.

AEP spokesman Scott Blake said the riders reflect "significant investments made by AEP Ohio to improve reliability for our customers." The costs "incurred for many of these projects were deferred by the [PUCO] for many years, and then were approved for recovery following the transition to a deregulated market," Blake said in a March 17 email. The impact of deregulation varies depending on the customer class, with some groups of customers seeing a 41 cent per month increase and other seeing a 61 cent per month decrease compared to pre-restructuring pricing, Blake added.

The study was not funded by external sources, Dormady said. Dormady plans to release another study looking at impacts to commercial and industrial customers.