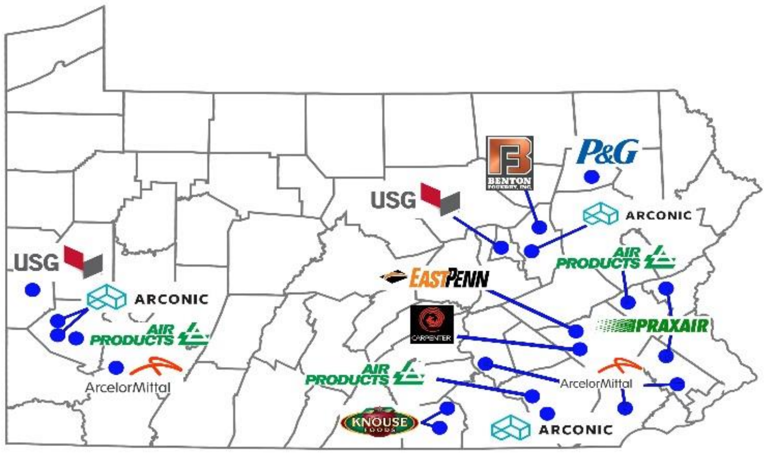
Industrial Energy Consumers of Pennsylvania



M E M O R A N D U M

To: Members of the Pennsylvania General Assembly

From: The Industrial Energy Consumers of Pennsylvania (IECPA)

Re: Nuclear Bail Out Proposals: **Oppose**

On behalf of the Industrial Energy Consumers of Pennsylvania (IECPA) and its member companies representing over 25,000 employees statewide, we are writing today regarding our serious concerns about legislative proposals that would provide another rate payer funded state-incentive to the nuclear industry. IECPA member companies operate energy-intensive facilities with significant expenditures dedicated to electricity costs. Moreover, because these manufacturing businesses are exposed to global trade, they cannot merely pass additional costs on to their customers without risking the loss of those customers to their global competition. IECPA members support a diverse power plant generation portfolio including nuclear power plants. However, we ***do not support a unique subsidy*** for those plants. While increasing electricity cost on households and small businesses are bad enough, the brunt of the impact will be felt by large-scale users of electricity, including our manufacturers, schools, transit systems and city governments.

Bailout Advocates are Seeking a Legislative Solution to a Boardroom Decision

Nuclear facilities are not at a disadvantage in Pennsylvania. All but one are profitable. A wholesale change to the characterization of nuclear generation, for the sole benefit of propping up an inefficient facility, creates an artificial safety net that disregards the practical realities of competition in a free, deregulated market.

Planned De-Commissions in the Nuclear Industry Will Not Impact the Regional Energy Supply

PJM Interconnection, the regional transmission organization that coordinates the movement of wholesale electricity in all or parts of 13 states, including Pennsylvania, has confirmed that the electricity grid will remain reliable and resilient, even with the planned closure of the plants in our nuclear fleet that are not cost-efficient.

The Alternative Energy Portfolio Act was NOT Designed to Support a Limited Number of Nuclear Generation Plants

Under the AEPS program sellers of electricity can meet their obligations in three ways: by the generation of the electricity from the ownership of qualifying facilities, by the direct purchase of electricity and the associated Alternative Energy Credits (AECs) from another owner of a qualifying facility or by purchasing AEC's. The AEPS design was that competition for the supply of these services would exist and generation owners wishing to sell and those obligated to purchase would have the option to compare price and level of service and make choices as to where and with whom to do business resulting in the development of new resources.[1] The AEPS program was intended to encourage development of new energy sources that are truly renewable and sustainable, not to prolong the life of existing non-renewable generation.

The University of Pennsylvania Kleinman Center for Energy Policy has estimated the cost of adding a new Tier 3 at 50% to the AEPS will cost ratepayers a projected $981 million annually. At the 2017 state usage of 150,086,226 MWh this would result in an electricity charge of $6.54 per MWh. Rate payers, especially energy intensive industrial customers, cannot afford this increase in electricity cost!

Pennsylvania's Nuclear Plants Have Already Received a Bailout

The current bailout initiative fails to acknowledge the massive financial support that was already provided to the Pennsylvania nuclear industry from 1999 through 2015. Nuclear plant owners were awarded large stranded cost recovery funds to eliminate expected investment losses when prices were expected to drop post-electric industry restructuring. Over $8.6 billion of nuclear-related stranded cost was paid for those plants. That's $8.6 billion paid by residential, commercial and manufacturing customers in Pennsylvania so that these nuclear plants could operate in the competitive market. Part of the calculation in determining these stranded costs was a forecast of the plant's future market electricity sales.

However, for the first fifteen years the deregulated electricity market prices were significantly higher than what was included in the stranded costs forecast. Therefore, in addition to the billions of dollars in stranded cost payments, the nuclear generation owners also enjoyed billions of dollars in actual energy market revenues above what was expected.[2] During this time of higher energy market payments, ***the industrial customers never asked for and the Pennsylvania legislator never proposed or passed a bill requiring nuclear generation owners to return any of the over-earnings back to customers.*** Instead, due to the higher electricity cost, industrial customers had to make cuts to other operational costs, including employment, and develop more efficient operations. Now that the

[1] "Alternative Energy Credits and the Renewable Energy Marketplace in Pennsylvania", Edward V. Johnstonbaugh, July 7, 2016

[2] "Analysis Regarding Pennsylvania Nuclear Power Plant Cash Flows", Daymark Energy Advisors, June 14, 2017

energy market has fostered private investment in fuel development such as shale natural gas and new, lower-cost renewable generation which has driven down the energy market prices, these nuclear generation owners want another costly bailout from customers. However, this time there is much less opportunity for industrial customers to offset this increased electricity cost from another bailout as the major operational efficiency changes have already been implemented. Those operational efficiency changes also include Pennsylvania's loss of significant manufacturing capacity and the related jobs to the Financial Crisis and the recovery from it. That means any electricity cost increase from another nuclear bailout will likely be offset by a reduction in employment.