

COUNTERFLOW

BY STEVE HUNTOON

The Surreal, the Absurd and the Tragic

The Surreal

I'd like to apologize — on behalf of FirstEnergy — for dragging countless congressmen into the arcane world of the electric utility industry. You've had to listen to millionaire lobbyists — the quintessential swamp — talking about stuff so dry that we who toil in this world aren't allowed to talk to our spouses about it.



And biggest apology to Sen. Manchin because you're the biggest victim. Bailout for FirstEnergy via the Defense Production Act of 1950? OMG.

Do you think if there were a scintilla of national security threat we might have heard something from, hmm, let's see, maybe the Defense Department?

But here we are.

If you're just listening to FirstEnergy's lobbyists, you've missed a few key facts. FirstEnergy's plants are:¹

- Not baseload.
- Old — not retiring prematurely.
- Inefficient.
- Unreliable.
- Not needed for a reliable and resilient grid.

In the tough competition for weakest bailout argument, the winner is the argument that if we didn't have all the coal plants we had last winter, there would have been an electricity problem, which is like saying if we didn't have all the Fords we had last winter, there would be a car problem. Duh.

All the Fords aren't disappearing overnight. And the Fords that do disappear are being replaced by better Fords.

A weaker argument for subsidizing old, inefficient and unreliable plants is hard to imagine. If it had prevailed 100 years ago, we'd still be driving Model T's.

Quick Quiz

Let's see if you've been conned with a quick quiz question: The Department of Energy projects in the year 2050, 32 years

from now, there will be this much coal and nuclear generation in the United States:

- 0 gigawatts
- 10 gigawatts
- 100 gigawatts
- 274 gigawatts

The answer is d) 274 gigawatts.² Yes, Rick Perry's own Department of Energy projects a huge amount of coal and nuclear generation to be around for the *next 32 years*.

It's a con to pretend coal and nuclear plants will disappear quickly (or at all), causing any sort of reliability problem — and to promise a bailout on such fantasy.

The Absurd

The absurd is that all the responsible entities in the electric industry know there is no emergency. All the independent grid operators, the unanimous Federal Energy Regulatory Commission (where four of the five Commissioners are Trump appointees), former federal regulators, and all the independent analysts have repeatedly said that. These would be the first to warn of an emergency if one actually existed.

Compounding the absurdity, earlier this month FirstEnergy told the bankruptcy court that all its coal and nuclear plants would be operating throughout its bankruptcy proceeding.³ That proceeding will take at least five to six years.⁴

That means all the FirstEnergy plants will be operating for at least the next five or six years.

On top of that, Robert Murray, coal CEO and FirstEnergy's fellow traveler, told *The Wall Street Journal* earlier this month there was no longer any need for a bailout to save his company from bankruptcy because of increased exports to Asia.⁵ He now "expects his company to thrive whether or not the Trump administration intervenes," the *Journal* reported.

There is no fire. Or even a puff of smoke.

The Tragic

FirstEnergy's customers paid it \$6.9 billion in return for the company's transition from a regulated environment to a competitive environment. If that "bet" had turned out

well, FirstEnergy would, of course, have kept the money. It hasn't gone as well as FirstEnergy anticipated, and now FirstEnergy wants customers to bail them out all over again.

I didn't realize just how outrageous that was until poring through the record of FirstEnergy's stranded cost proceeding in Ohio from almost 20 years ago. FirstEnergy's stranded costs were based on the difference between their regulated "net book value" and their net revenues in the future under market conditions.

Please bear with me. "Net book value" is the original cost of the plants reduced by the amount of capital that customers already have reimbursed the utility (a.k.a., depreciation). So, when FirstEnergy was paid net book value (less the future market revenues it would get to keep), it was paid the rest of the plant costs that customers hadn't already paid for.

In other words, customers have already paid for 100% of FirstEnergy's plants. FirstEnergy may retain legal title, but in equity the customers own the plants.

Can you imagine the tragedy of customers having to pay for those old, inefficient and unreliable plants all over again? Let's hope a surreal and absurd bailout and a tragic rate increase don't come to pass. And if they do, let's hope voters figure out who's responsible.

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¹All of this is common knowledge in the industry. For my own takes, the non-baseload, old and inefficient nature of these plants is discussed here: <http://www.energy-counsel.com/docs/Clunker-Poster-Child.pdf>. The unreliable nature of these plants is discussed here: <http://www.energy-counsel.com/docs/Cash-for-Clunkers-Redux-RTO-Insider.pdf>. The lack of need for these plants is discussed here: <http://www.energy-counsel.com/docs/Counterflow-More-Smoking-Guns-for-the-Clunkers-RTO-Insider.pdf>.

²<https://www.eia.gov/todayinenergy/detail.php?id=35572> (for coal, 195 gigawatts); <https://www.eia.gov/outlooks/aeo/pdf/AEO2018.pdf> (page 43, for coal, 79 gigawatts)

³<https://www.usnews.com/news/best-states/ohio/articles/2018-04-04/utility-says-power-plants-will-stay-open-during-bankruptcy>

⁴<https://www.ohio.com/akron/business/breaking-news-business/firstenergy-solutions-bankruptcy-could-take-years-consumer-impact-review-begins>

⁵<https://www.wsj.com/articles/robert-murray-says-trump-administrations-help-not-needed-to-save-his-coal-company-1523570164?mod=searchresults&page=1&pos=3>