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H.B. 15
136th General Assembly

Fiscal Note & Local Impact Statement

Click here for H.B. 15's Bill Analysis

Version: As Introduced

Primary Sponsor: Rep. Klopfenstein

Local Impact Statement Procedure Required: Yes

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Highlights

- The bill exempts electric company generation property from local personal property taxes while increasing the personal property tax assessment rate for electric transmission and distribution property from 85% to 89%. The provision is generally expected to be revenue neutral statewide in the near-term, though local revenue impacts will vary.
- The bill repeals provisions of law that allowed for certain solar energy resources to apply to the Ohio Air Quality Development Authority (OAQDA) to receive payments for solar energy credits. The total savings are uncertain but expected to grow as those select solar facilities increase their generation activity.
- The bill requires that an electric distribution utility's (EDU) standard service offer (SSO) be established exclusively as a market-rate offer (MRO) by eliminating the electric security plan (ESP) option and making the MRO mandatory. The fiscal impact is indeterminate, with potential fluctuations in future electricity costs.
- The bill repeals the current charge on electric ratepayers for costs related to the Ohio Valley Electric Company (OVEC) at the end of an EDU's current ESP, saving ratepayers an estimated $397.5 million through 2030.

Detailed Analysis

The bill makes several changes to Ohio's public utility laws with fiscal implications, including property tax policy modifications, the repeal of solar energy credit payments, the restructuring of the standard service offer (SSO), and the elimination of ratepayer charges for Ohio Valley Electric Company (OVEC) costs. The following sections provide a detailed analysis of these provisions.

Taxation of electric company personal property

The bill makes two changes to the taxation of electric company tangible personal property (TPP). First, the bill exempts electric generation property from taxation. Second, the bill increases the assessment rate applicable to electric transmission and distribution property.

The bill's changes apply to electric companies and "energy" companies, beginning in the first full tax year after the bill takes effect. An "energy" company is one that generates, transmits, or distributes electricity from a facility that (a) has a nameplate capacity of more than 250 kilowatts and (b) consists of wind turbines, solar panels, other renewable energy source, clean coal, or cogeneration technology. The changes do not apply to rural electric companies, i.e., electric cooperatives.

Exemption of generation property

Under continuing law, local property taxes apply to the TPP, e.g., the machinery and equipment, of public utilities. Currently, the TPP of electric and energy companies is taxed according to three categories: (a) electricity generation property, (b) transmission and distribution property, and (c) all other property. The bill exempts electric and energy companies' generation property from taxation.

Transmission and distribution property assessment rate increase

Similar to real property, the amount of tax due with respect to utility company TPP involves determining the property's taxable value and multiplying that value by the relevant local tax rate. The property's taxable value is its "true value" (generally, its cost minus annual depreciation allowances), multiplied by an assessment rate. The bill increases, from 85% to 89%, the assessment rate for electric transmission and distribution property. The bill also increases the rate for energy company property that falls into the "other" category, similarly from 85% to 89%. An electric company's "other" property would remain at its current assessment rate of 24%. (Currently, that 24% assessment rate also applies to generation property, which the bill would entirely exempt.)

Fiscal effect

The provisions are generally expected to be revenue neutral on a statewide basis or close to that outcome in the near-term. According to the Department of Taxation, tax year (TY) 2023 data shows that the statewide valuation of TPP owned by electric and energy companies is approximately $17.2 billion. The increase in taxable TPP from the higher assessment rate on transmission and distribution property is projected to offset the decrease in taxable TPP from exempting electric production property, assuming tax rates remain consistent across property types.

However, at the local level, the impact will vary depending on the composition of local tax bases. Taxing districts with significant electric production property may experience property tax revenue losses under the bill, while districts with little or no electric production property may see increased tax revenue due to the higher assessment rate on electric transmission and distribution property. Communities served by municipal electric utilities could have no fiscal effect, as their tangible personal property is already tax-exempt.

Solar energy credit program repeal

The bill repeals the solar energy credit program, which allowed qualifying solar energy resources to apply to the Ohio Air Quality Development Authority (OAQDA) for payments for credits received for generating electricity via solar energy. Under the current law, it allows for an electric distribution utility's (EDU) to collect a monthly charge from each retail customer in the state to produce a revenue requirement of $20 million annually for disbursement through the credit program.

The bill prohibits an EDU, beginning on the bill's effective date, from collecting any charge that was authorized pursuant to the solar energy credit program provisions the bill repeals. The bill further prohibits OAQDA from directing the Treasurer of State (TOS) to remit, and the Treasurer is prohibited from remitting, any money from the Solar Generation Fund (SGF) to owners or operators of qualifying solar resources.

The bill does not state what is to happen to the money already collected and deposited in the Solar Generation Fund.

Fiscal effect

The bill eliminates the solar energy program, repealing a charge on ratepayers. According to the TOS annual report, payments for solar energy generation credits could total up to $1.1 million or less in FY 2024.[1] Due to fluctuations in disbursement amounts over the years, the total savings for ratepayers remain uncertain. However, savings are expected to increase as another approved solar facility becomes operational and overall generation rises among the approved facilities.

Elimination of ESPs and requirement for MRO-based SSOs

The bill requires an EDU's SSO to be established exclusively as a market-rate offer (MRO) by eliminating the option for an electric security plan (ESP) and making the MRO mandatory. SSO is an offer of all the competitive retail electric services (CRES) necessary to maintain essential electric service that an EDU is required to provide to customers who either (1) have not selected their own electric generation supplier or (2) whose supplier has defaulted, and the customer did not obtain a new supplier. Under current law, an EDU may establish its SSO as either an ESP or an MRO.

Fiscal effect

State agencies, political subdivisions, and school districts are major electricity consumers. Since no utility has proposed an MRO before, the fiscal impact is uncertain. Additionally, the shift from the ESP to a mandatory MRO may lead to fluctuations in electricity costs, with potential savings or increases depending on market conditions.

In general, the three major components of electric bills in Ohio are the price of generation, transmission, and distribution of that electricity. The generation charge should be relatively consistent between an ESP and MRO, as it is determined by a competitive bidding process under an ESP. The transmission charge is a rate set by formula based upon costs submitted annually to

[1] Based on the TOS annual report, total outflows of the SGF is approximately $1.3 million. After accounting for a $256,000 transfer from the SGF, the estimated net outflow is approximately $1.1 million.

the Federal Energy Regulatory Commission (FERC). Therefore, the distribution component is most affected by state regulation. Distribution lines are the lower voltage lines usually mounted on utility poles or buried underground and used to deliver electricity to homes and businesses.

Under current law, the Public Utilities Commission of Ohio (PUCO) must approve, or modify and approve, an EDU's application for an ESP if it finds that the ESP so approved, including its pricing and all other terms and conditions, including any deferrals and any future recovery of deferrals, is more favorable in the aggregate as compared to the expected results that would otherwise apply under an MRO.[2] The Supreme Court of Ohio has determined that does not bind PUCO to a strict price comparison, but rather instructs the Commission to consider pricing, as well as all other terms and conditions. Consequently, PUCO must ensure that the ESP as a total package is considered, including both a quantitative and qualitative analysis.

Many distribution riders are also recoverable under an MRO. However, some riders in an ESP do not offer clear quantitative advantages to customers. In the past, PUCO approved riders with various types of intended qualitative benefits, such as (1) rate stability for customers, (2) enabling EDUs to proactively improve reliability by improving distribution infrastructure, (3) provisions for economic development, (4) bill payment assistance and energy efficiency programs for low-income customers, (5) to establish a senior citizen discount, and (6) to promote electric vehicle (EV) charging.

Legacy generation resource recovery repeal

The bill repeals provisions of law that allow an EDU to collect a monthly charge from each customer in the state to recover costs for a legacy generation resource (LGR), such as the Ohio Valley Electric Company (OVEC). The bill allows, despite the repeal of the LGR provisions, for a rider or cost recovery mechanism for an LGR authorized under an EDU's ESP in effect on the bill's effective date to remain in effect until the termination date of the ESP. After the termination date of the ESP, the EDU cannot apply for, and PUCO cannot authorize, any rider or cost recovery mechanism for an LGR or OVEC.

Fiscal effect

The repeal of the OVEC cost recovery rider is projected to generate total savings of over $397.5 million for ratepayers through 2030, assuming the bill has an effective date on or before May 31, 2025. The table below displays the estimated ratepayer savings from 2025 to 2030 for each EDU, along with their respective ESP expiration dates. This estimate is based on the cost recovery mechanism employed by applicable EDUs.

As EDUs submit projected net costs related to OVEC to PUCO every six months, LBO staff analyzed these semi-annual projections to forecast future expenses. The estimated ratepayer savings are based on the most recent projection for OVEC costs applicable to January 2025 through June 2025.[3] This analysis estimates an annualized amount of those costs, approximately

[2] R.C. 4928.143(C)(1).

[3] Refer to "PROJECTED OVEC NET COSTS (6 Months)" totaling $53,764,927, as found in PUCO case number 24-1070-EL-RDR, which is available on PUCO's website: dis.puc.state.oh.us/.

$107.5 million for all three EDUs, and projects the savings to begin following the expiration of all current ESPs.

Estimated Customer Savings from LGR Rider, 2025-2030		
EDU	ESP Expiration Date	Estimated Ratepayer Savings (in millions)
AEP Ohio	May 31, 2028	$159.0
Dayton Power and Light Company	August 31, 2026	$175.3
Duke Energy Ohio	May 31, 2025	$63.2
FirstEnergy EDUs	Not applicable	$0.0
Total	**N/A**	**$397.5**

Note: The three FirstEnergy EDUs are unaffected by these LGR/OVEC provisions because they are not sponsoring companies of OVEC.

Power Siting Board certification

The bill requires the replacement of an existing major utility facility with a like facility, as determined by the Power Siting Board (PSB), to constitute the construction of a major utility facility that requires PSB certification. The bill also repeals the provision stating that a replacement with a like facility is not exempt from other state or local laws or regulations.

Fiscal effect

The PSB may see an increase in application submissions due to this provision. As the agency operates on a cost-recovery basis, its expenses are offset by fees paid by applicants. These fees are deposited into Fund 5610 and allocated through appropriation line item 870606, with costs matching the revenue generated from the fees.

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