

FirstEnergy bailout

will cost northern Ohio

up to 49,000 jobs

by Ohio Citizen Action and [Safe Energy Communication Council](#)
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Summary

As the Ohio General Assembly moves forward with plans to deregulate the electric utility industry and let customers choose their power suppliers, the largest unresolved question is who will pay for past utility investments that would make their power too expensive to sell in a competitive market. Regulators have allowed these costs to be built into the current rates of the monopoly utilities, and the utilities want to keep collecting them under competition. Utilities label these inefficiencies of the regulated system "stranded costs."

In Ohio, the bulk of the "stranded costs" would be in the northern half of the state, where FirstEnergy's (parent company of Ohio Edison, Toledo Edison, and Cleveland Electric Illuminating) investments in nuclear power plants have pushed its rates 30 to 60 percent higher than rates charged by utilities in central and southern Ohio. FirstEnergy has publicly said it needs \$8 billion in surcharges from customers before it can be competitive.

Now lawmakers must decide who will pay for the "stranded costs": ratepayers who had no say in the massive and misguided nuclear investments or shareholders who gave their stamp of approval. The answer to that question will have a major effect on employment in northern Ohio.

Findings

- A partial or full bailout of FirstEnergy would erode potential savings for consumers and cost jobs in northern Ohio.
- If FirstEnergy is allowed to recover the full \$8 billion it wants for "stranded costs", job gains sacrificed in northern Ohio during the first year of deregulation would be 49,300.
- The sectors most affected would be wholesale/retail trade, 14,200; industrial, 13,800; health services, 5,500; and eating/drinking places, 5,500.
- Under the Johnson-Mead 1998 legislation which would let FirstEnergy collect about 55 percent of the \$8 billion, during the first year of deregulation, the bailout would cost northern Ohio 27,100 new jobs.
- Sectors most affected would be wholesale/retail trade, 7,800; industrial, 7,600; health services, 3,000; and eating/drinking places, 3,000.

Introduction

"Utility lobbyists argue a great wrong would be done them if they were prevented from collecting for their misguided investments of the past. The deregulation ball has been rolling their way for 20 years. They've had time to get ready. Airlines, trucking, Ma Bell and the natural gas industry were not indemnified...."

Wall Street Journal

November 3, 1998

1999 is expected to be the year when the Ohio General Assembly will pass legislation to restructure the electric utility industry to give customers the chance to choose their power supplier. The theory driving this move is simple - competition will bring lower electric rates and a boost to the state's economy. That theory is in trouble in Ohio, where FirstEnergy (parent company of Ohio Edison, Toledo Edison, and the Cleveland Electric Illuminating Co.) is lobbying hard to win a legislative guarantee that it can continue to collect for past mismanagement and investments in unneeded nuclear plants in the competitive market. Utilities, particularly those with above average rates, contend that competition will leave them with "stranded costs" (i.e., costs now built into rates that would make their power too expensive to sell in a competitive market.)

FirstEnergy has publicly said (*Plain Dealer* 6/27/98) it needs to be able to recover \$8 billion in "stranded costs" before it is ready for the free market. The \$8 billion would be used mainly to cover remaining debt on its three nuclear units - Perry, Davis-Besse, and Beaver Valley. If lawmakers allow "stranded cost" recovery, the monthly surcharge on electric bills would effectively gut the potential benefits of competition by wiping out savings customers could find by shopping for cheaper power and stifling job expansion in northern Ohio, as employers pay the monthly surcharge instead of using that money to add new workers.

The following analysis, *Employment and Economic Impacts Due to the Allocation of Stranded Costs from Ohio Electric Utilities*, by Marc Breslow, Ph.D. examines the job consequences of forcing FirstEnergy customers to pay "stranded costs". Dr. Breslow used a methodology known as "input-output analysis" to project job gains sacrificed in northern Ohio if money for "stranded costs" is channeled to FirstEnergy rather than used more productively in the economy.

Dr. Breslow looked at the effect of awarding "stranded costs" to FirstEnergy under two scenarios: full recovery of the \$8 billion sought by FirstEnergy and partial recovery (approximately \$4.4 billion) as allowed in the formula contained in the 1998 Johnson-Mead bills (S.B. 237/H.B. 732). The 1999 "compromise" legislation most likely will fall somewhere between those two options.

The other Ohio electric utilities - American Electric Power, Cinergy, and Dayton Power and Light - believe they, too, are entitled to "stranded costs". "stranded costs" for those three utilities would push the statewide total to nearly \$12 billion. This analysis, however, looks only at "stranded costs" for FirstEnergy and the effects on the northern Ohio economy. For two decades, the northern Ohio economy has been forced to carry the burden of FirstEnergy's mistakes, and northern Ohio has the most to gain or lose from the legislature's actions on electric deregulation.

Background

In the 1970s, as Ohio Edison, Toledo Edison, and CEI plunged head-long into a massive nuclear construction program, northern Ohio was already beginning to suffer the harsh consequences of the permanent loss of major manufacturers and large numbers of industrial jobs. Despite the rapid decline in the region's manufacturing base and a nationwide trend toward the use of more energy efficient products and appliances, the three electric utilities insisted that demand for electricity would annually grow at double-digit rates through the end of the twentieth century. The utilities defended their nuclear agenda by promoting the standard industry line that nuclear power would be "too cheap to meter," a promise that could not have been further from the truth.

For ratepayers, that broken promise translates into higher electric bills. On average, northern Ohioans pay 30 to 60 percent more for electricity than ratepayers in central and southern Ohio. Most large industrial customers in northern Ohio have successfully negotiated special contracts with the FirstEnergy companies to lower rates, but under the current regulated monopoly system, residential and small and medium-sized business customers can not negotiate special contracts. For these customers, a competitive market offers the only avenue for rate relief. "stranded costs" would prolong the rate disparities and force northern Ohio to forego opportunities for job expansion.

It is generally agreed that decisions about "stranded costs" are mainly political. In a 1996 report, *An Economic and Legal Perspective on Electric Utility Transition Costs*, Kenneth Rose, Ph.D, of the National Regulatory Research Institute wrote:

"The idea of "stranded costs," and more importantly arguments for its recovery, is a concept with little basis in economic theory, legal precedence, or precedence in other regulated industries."

Other industries - airlines, trucking, telephone, and natural gas, for instance - have been deregulated without being permitted to gouge the public to recover investments made in the regulated arena.

Ohio regulators have imposed a heavy financial penalty on northern Ohio residential and business electric customers. As the Ohio General Assembly considers legislation to deregulate the electric utility industry, it needs to be fully aware of the job gains that would be sacrificed if its political decision is to bailout FirstEnergy for past mistakes.

Report

Employment and economic impacts due to the allocation of stranded costs from Ohio electric utilities

Marc Breslow, Ph.D.

Introduction

As a result of deregulation of the electric utility industry, many power plants currently owned by regulated utilities will become uneconomical, since their total costs (capital plus operating) are higher than those of competitor generating sources. The question then becomes who will pay for the excess costs of these plants - ratepayers or the utilities (meaning primarily their stockholders).

How these costs are allocated will have substantial effects on the economy of Ohio, and in particular, on employment. Since the vast majority of stranded costs would be allocated to northern Ohio electric utilities, this analysis focuses on the effects of stranded costs on that region. This study forecasts those effects if ratepayers are required to pay for part or all of the stranded costs of FirstEnergy (parent company of Ohio Edison, Toledo Edison, and Cleveland Electric Illuminating) - essentially, if there is a large transfer of income from households in northern Ohio to FirstEnergy stockholders.

We utilize two alternative estimates. One derives from the Johnson-Mead plan, which provides an estimated surcharge per kwh for FirstEnergy customers during each year of a five year period. Second, based on an estimate that Johnson-Mead would mean FirstEnergy recovery of approximately 55% of a total of \$8 billion in stranded costs claimed by FirstEnergy, we forecast the economic impacts if the entire \$8 billion were imposed on northern Ohio electricity customers.

We first provide our results, then briefly discuss the methodology involved.

Results

Since the uneconomic plants are currently in the utility rate bases, ratepayers are presently paying the capital costs of these plants. So stranded costs should not actually cause rates to rise, but rather will

prevent rates from falling as much as they could if the utilities absorbed the stranded costs themselves. Thus, we are faced not with employment "losses," but rather with employment "gains sacrificed." Table 1 below shows these foregone job gains during the first five years of the implementation of a plan to charge ratepayers for the stranded costs as provided in the Johnson-Mead bill. The economic losses can also be measured in two other ways, as shown in Table 2. One of these is "output," which simply measures the change in value of sales or provision of services by all businesses, government agencies, and non-profit organizations in the state of Ohio. Second is "earnings," which measures the change in wage and salary income to all residents of the state. Tables 3 and 4 present the effects of a payment of \$8 billion to FirstEnergy in stranded costs.

All figures in the tables have been rounded off, to indicate the appropriate degree of precision in the analysis.

Johnson-Mead plan

Table 1: Total Impacts

	Output	Earnings	Employment
Year One	- \$2,060,000,000	- \$640,000,000	- 27,100 jobs
Year Two	- \$1,730,000,000	- \$540,000,000	- 22,700 jobs
Year Three	- \$1,240,000,000	- \$380,000,000	- 16,300 jobs
Year Four	- \$920,000,000	- \$290,000,000	- 12,100 jobs
Year Five	- \$590,000,000	- \$180,000,000	- 7,800 jobs

Table 2: Impacts by major economic sector, Year One

	Output	Earnings	Employment
Industrial	- \$880,000,000	- \$230,000,000	- 7,600 jobs
Construction	- \$90,000,000	- \$30,000,000	-1,200 jobs
Trans/comm/ util	- \$80,000,000	- \$20,000,000	- 800 jobs

Wholesale/retail trade	- \$440,000,000	- \$150,000,000	- 7,800 jobs
Fin/ins/real est	- \$90,000,000	- \$30,000,000	- 1,000 jobs
Services	- \$150,000,000	- \$60,000,000	- 2,700 jobs
Eat/drink places	- \$130,000,000	- \$40,000,000	- 3,000 jobs
Health	- \$190,000,000	- \$80,000,000	- 3,000 jobs

Full \$8 billion in stranded costs paid to FirstEnergy

Table 3: Total Impacts

	Output	Earnings	Employment
Year One	- \$3,750,000,000	- \$1,160,000,000	- 49,300 jobs
Year Two	- \$3,150,000,000	- \$970,000,000	- 41,400 jobs
Year Three	- \$2,260,000,000	- \$700,000,000	- 29,700 jobs
Year Four	- \$1,680,000,000	- \$520,000,000	- 22,100 jobs
Year Five	- \$1,080,000,000	- \$330,000,000	- 14,200 jobs

Table 4: Impacts by major economic sector, Year One

	Output	Earnings	Employment
Industrial	- \$1,600,000,000	- \$420,000,000	- 13,800 jobs

Construction	- \$ 160,000,000	- \$50,000,000	- 2,200 jobs
Trans/comm / util	- \$150,000,000	- \$40,000,000	- 1,500 jobs
Wholesale/retail trade	- \$800,000,000	- \$270,000,000	- 14,200 jobs
Fin/ins /real est	- \$160,000,000	- \$50,000,000	- 1,800 jobs
Services	- \$270,000,000	- \$110,000,000	- 4,900 jobs
Eat/drink places	- \$240,000,000	- \$70,000,000	- 5,500 jobs
Health	- \$350,000,000	- \$150,000,000	- 5,500 jobs

Should the stranded costs of FirstEnergy imposed on ratepayers be more or less than \$8 billion or the Johnson-Mead estimates, the employment and other economic impacts would vary proportionately.

Methodology

If stranded costs are awarded to FirstEnergy, this constitutes a transfer of income from electricity consumers in northern Ohio to the utility. Thus, all commercial and industrial businesses will have higher operating costs (or, in other words, they will have less money to spend on other costs, including hiring additional workers). In addition to these direct effects, there also are a series of indirect effects that result from responding as these businesses make fewer purchases from other companies.

In addition, residential electricity consumers will have less money remaining after paying their electric bills. As a result, they will spend less on all their other consumption items, such as food, clothing, transportation, entertainment, medical care, and housing. All these industries will then have lower sales, reducing their employment.

In recent decades, numerous analyses have shown that reducing energy consumption, and therefore funds going to electric and

gas utilities, and to gasoline and fuel oil consumption, will have strong positive impacts on employment. (See, for example, Energy Efficiency and Job Creation: The Employment and Income Benefits from Investing in Energy Conserving Technologies, Howard Geller et. al., American Council for an Energy-Efficient Economy, 1992.) This result occurs because utilities and other energy-related activities yield far fewer jobs per dollar of spending than virtually all other industries, due both to their capital-intensity and to the large fraction of spending which goes to imports of fuel.

In the particular case of stranded costs, employment from providing funds to the utilities will be even smaller. Other analyses, such as that by Geller, have looked at provision of electricity through building additional power plants versus using electricity more efficiently - with either alternative requiring new economic activity. But whether or not stranded costs are provided to the utilities, they will continue to operate the transmission, distribution, metering and billing systems, while they or their competitors will continue to generate electricity. It is likely, therefore, that there will be relatively small losses of employment within the electric utility industry.

Less stranded costs do mean lower incomes for utility stockholders and possibly debtors (such as bondholders). But such funds are used primarily for investment purposes, not for consumption. Stockholders may reside anywhere in the world, and may spend or invest their incomes throughout the United States and the rest of the world. The effects on employment levels within Ohio businesses are therefore relatively small.

Impacts on employment, earnings, and output are estimated by the use of a methodology known as input-output analysis, which examines the number of jobs yielded, and the changes in output and earnings, per dollar of spending by each industry. For this study we have utilized data for Ohio derived from the RIMS II (Regional Input-Output Modeling System) data base of the U.S. Department of Commerce.

We have utilized estimates of electricity sales from the three utilities involved to each major business sector, as reported in the 1996 Long-Term Forecast Report Form FE1-2, and sales figures from PUCO Form SE-1.

In order to use the RIMS II multipliers to determine effects on manufacturing sectors (known as "margin industries" in the RIMS II terminology), we must adjust by separating out the value of final sales which go to the actual manufacturers versus transporters, wholesalers,

and retailers. These adjustments are also made using data provided by the Bureau of Economic Analysis in the U.S. Department of Commerce.

In addition, the RIMS multipliers do not distinguish between payments that go to manufacturers within the geographic area under consideration and other areas. To restrict impacts to those on manufacturers solely in Ohio we have used data from County Business Patterns, a publication of the U.S. Census Bureau. This volume allows one to compare number of employees and payroll within the state versus those for the nation as a whole, by detailed manufacturing industry.