

***Who's Afraid of a Study Bill?
One Utility's Quest to Hold Onto 'Government Guaranteed Profits'***

The last two weeks have seen significant debate about omnibus energy legislation [House Bill 951](#), but unusual drama has centered around Rep. Larry Strickland's [House Bill 611](#). The bill directs the NC Utilities Commission to study how state electric utilities could become more cost effective, efficient, and customer friendly. The NC Utilities Commission would engage technical experts and a diverse stakeholder advisory group (including utilities) to consider where competition and reorganization could improve electric services. Neighboring [South Carolina passed a very similar law last year](#). The support for the South Carolina utility reform law was [almost unanimous among its Republican led](#) House, Senate, and Governor's office.

With billions of dollars at stake in House Bill 951, [front groups funded by Duke Energy](#) took the unprecedented step of attacking Rep. Strickland and other HB 611 sponsors in their home districts with paid advertising. This struck many observers as a strange overreaction on the part of the government regulated monopoly: HB 611 hadn't even received a formal committee hearing.

Duke executives may have had flashbacks to the dramatic [failure of the company's Senate Bill 559](#) from the 2019-2020 legislative session, which called for the enabling of broad multi year rate making. Rep. Strickland's 2019 version of his study bill [helped opponents defeat Duke's multiyear ratemaking push](#).

Duke Energy and other government regulated monopoly members of the [Edison Electric Institute](#) have used power outages in Texas and California to justify any change they want to impose and to avoid scrutiny of their own failures. Despite this red herring, North Carolina residents of all political stripes understand that competition produces lower costs and better results than monopolies. According to an August 2020 survey of 600 frequent North Carolina voters conducted by veteran pollster Paul Shumaker:

- 66 percent of those surveyed favored allowing private sector generation companies (independent power producers) to build generation facilities and sell electricity directly to consumers.
- 70 percent of those surveyed favored allowing independent power producers to use new technology to store intermittent energy (solar and wind) and dispatch it to compete with government regulated monopoly generation.
- 80 percent of those surveyed favored allowing private sector power generation companies to compete against each other and utilities to provide electricity based on price and reliability.

Given overwhelming public support for competition in the Tarheel state, ***why is Duke Energy so afraid of a study bill in North Carolina?*** What would the findings of a study mean for the economy and citizens of [both North and South Carolina](#)? The answer is simple: Business and

residential ratepayers would realize [massive savings](#) if government regulated electric monopolies were reformed and subject to competition on a level playing field.

The Carolinas' Energy Landscape

North Carolina and South Carolina share many similar characteristics. Their geography and climate, for example, mirror each other in terms of heat, [storm impacts](#), and the Atlantic and mountains of their east and west borders. The states share major highways, and are served by the same electric transmission lines controlled largely by Duke Energy. Their energy economies are inextricably linked. North Carolina is a net energy importer from South Carolina, which supplies much of the energy for both states in the form of nuclear power.

Both states have a vested interest in ensuring their energy systems use safe technologies and serve their customers reliably. [Their economies are both energy-intensive](#): North Carolinians consume 5,260 btu per dollar of GDP (GDP sits at \$497.3 billion), while South Carolinians consume 8,070 btu per dollar (GDP at \$207.2 billion). The significant manufacturing and industrial sectors account for nearly [21 \(NC\)](#) and [32 \(SC\)](#) percent of energy consumed. North Carolina ranked as the [fifth-largest manufacturing state](#) in America as of 2019, with [production](#) in the machinery, food and beverage, steel, and chemical industries. South Carolina has seen manufacturing growth of eighteen percent over the past decade, the second-largest growth in the Southeast. The state's industrial focus is [dominated by automotive manufacturing](#).

Cost Concerns

The two states' intense demand makes energy costs paramount to powering their economies, especially when manufacturing depends on energy 24/7. Smaller-scale and residential customers have also dealt with focusing events hitting their bottom line. Settlements stemming from Duke Energy's significant [Dan River coal ash spill in 2014](#), as well as additional issues from other unlined coal ash basins, entail billions in recovery and cleanup. [North Carolina ratepayers will be on the hook to pay for the utility's mess](#)—around 75 percent of the projected \$4 billion in costs through 2030.

South Carolina utility customers have also grappled with explosive energy cost issues in the past few years with the [failure of the pricey VC Sumner nuclear project](#). The expected total project cost grew over more than a decade of planning and construction, projecting to \$25 billion in the long term. After sinking around \$9 billion into the project, the two smaller power companies involved in the project scrapped the unfinished reactors. [Nearly two-thirds of South Carolina's utility customers](#) have and will continue to pay billions for the abandoned facility - which will never generate a kilowatt of electricity.

Given these factors and others, customers have seen steadily increasing costs, all while energy consumption has remained [relatively steady](#). If Duke Energy's 2020 Integrated Resource Plan (IRP) is any indication, customers should expect continued rate increases. The Duke IRP -- which has been rejected by the [South Carolina Public Service Commission](#) and is being scrutinized by

the NC Utilities Commission -- shows plans for its expensive coal fleet retirement. However, instead of converting to renewables, which are now lowest cost [fuels](#), the IRP shows nearly 10 GW of planned new natural gas.

Many plants likely will not operate through their full useful lifespan. Renewables will continue to become cheaper and more necessary under policy changes, and [ratepayers will be stuck paying the price for obsolete assets](#). Industry and manufacturing customers will particularly suffer given their 24/7 energy requirements. As the [cost burden grows](#), North and South Carolina will face industry loss as companies move to regions with more competitive electricity costs.

The Market Reform Movement

There is strong support in both Carolinas for electricity market reform. Whether that means an energy exchange market, imbalance market, or regional transmission organization (RTO) is yet to be determined. However, many legislators and business leaders in both South and North Carolina agree that a competitive wholesale market would yield dramatically lower energy prices and better customer experiences. This sentiment is part of a national rethinking of whether the government monopoly utility approach from a century ago makes sense today. This month, nine former federal regulators wrote a letter urging the Federal Energy Regulatory Commission (FERC) to expand organized, wholesale power markets in the United States. The letter argued that as we move toward more intense grid decarbonization, it is the perfect time to shift toward a ["well-structured organized power markets in all regions of the country."](#)

Independent studies, such as modeling by [Vibrant Clean Energy](#), have shown the immense potential for savings should we restructure. For example, an RTO in the Southeast would save \$384 billion by 2050, create 285,000 full time jobs, reduce emissions by 37 percent, and provide energy transparency across the region. Another [report from The Brattle Group](#) noted that customers in North Carolina alone would save \$600 million annually if Duke Energy joined an RTO like PJM Interconnection.

North Carolinians of all political stripes [understand](#) that competition on a level playing field yields the best results.

'Government Guaranteed Profits'

As Professor [Leah Stokes](#) notes in her book [Short Circuiting Policy](#), monopoly electric utility "arrangements set up in the early 1900's are still largely in place today." She also points out that utilities "also receive [government guaranteed profits](#)" and therefore have no incentive to serve customers better or less expensively.

It should come as no surprise that North Carolina has experienced significant pushback against reform by Duke Energy. While there are legitimate questions about how to execute a market transition, those benefiting from the current guaranteed utility profit system have been sure to leverage even irrelevant uncertainties in their favor.

Despite the oversized role of government regulated monopolies in electoral politics, both Carolinas have pursued study bills to thoroughly examine new market possibilities from a ratepayer point of view. In South Carolina, major spending disasters such as VC Sumner spurred SC Senators Tom Davis and Wes Climer to [initiate a bill that creates an energy reform committee](#). Passed in late 2020, the SC [study](#) runs through 2022 and seeks answers around which market structure best improves consumer affordability. Last week, state [Representative Murrell Smith and bill sponsor Senator Tom Davis](#), co-chaired the kick off study committee meeting, during which several legislators expressed their strong support of electric market reform.

North Carolina, though similar in its utility market structure to South Carolina, has not had as much success moving toward reform. State Representative Larry Strickland introduced his latest utility reform [legislation](#) in April of this year with bipartisan support. His bill would allow for a combination of experts and stakeholders to support the NC Utilities Commission in determining the best means of market reform and provide guidelines for a well designed transition. However, the bill hasn't moved since its introduction. In late May, [Duke Energy opposed action](#) on House Bill 611, calling it "counterproductive" and saying they "do not see the need for a study at this time." As noted above, the utility also launched negative ads through a front group which attacked the bill and falsely claimed it would raise rates for consumers.

A very [similar stakeholder proposal emerged in](#) 2020 as part of [Governor Roy Cooper's clean energy plan](#). Governor Cooper's Executive Order 80 created a diverse, two-year stakeholder process involving representatives from utilities and employers to environmentalists and legislators of both parties. The products of this process included recommendations and draft legislation for a NC Utilities Commission examination of how well designed competition could lower electricity prices for North Carolinians.

As Electricity Prices Go, So Goes Our Future

The cost, reliability, and safety of electrical energy is critical to the economic future of both Carolinas. In a dynamic, capitalist economy, market competition can bring improvements to the price and quality of virtually any good or service. Whether North Carolina is allowed to study what works and what doesn't in electrical service -- and whether we are allowed to adapt to 21st century cost saving measures -- will determine whether the Carolinas' economies grow or stagnate.

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Previous Outline:

- How the two energy economies of NC & SC are linked as it relates to energy
 - SC produces 70 percent of their own energy and NC imports 70 percent of our energy from them (in the form of nuclear energy)
 - Need a citation for this fact
 - Both have energy intensive economies (ratio of energy consumption to Gross State Product) see:
https://www.eia.gov/state/seds/data.php?incfile=/state/seds/sep_sum/html/rank_use_gdp.html&sid=US
 - SC has the automobile industry (BMW, etc.)
 - NC has textiles, steel production (Nucor), chemical industry
 - Both states have had focusing events that have brought energy issues to the fore (VC Summer in SC, coal ash in NC, both coincidentally a \$8-9 billion public goods cost)
- How has energy shown up in the two states:
 - Energy demand has remained flat but energy costs have increased for the industry (stranded costs for coal, rate increases, costs for fixing coal ash, etc.)
 - Renewables have grown despite a carve out within a monopolistic energy structure as one success story
- Why costs are so important to the economies of the two states
 - Rate increases plus large energy use from companies operating 24/7 means large energy bills (not just the rate but how much is used)
 - With energy intensive economies when costs are higher than those in other states, firms will consider moving their plants to other locations. (Think CUCA argument here)
- Enter the need for energy market reform study
 - Has broad support.
 - Nine former FERC commissioners just sent a letter (see: <https://www.utilitydive.com/news/ferc-should-expand-organized-markets-across-the-us-former-chairs-and-commi/601187/>) talking about the importance of energy market study of RTOs. Maybe quote some of the commissioners in the article in terms of what they say.
 - Maybe one quote from former FERC Commissioner
 - NC/SC polling supports competition (data from Chris)

- SC Legislation
 - Major provisions, leadership by Senator Davis, importance of competition in light of VC Summer, study results due in 2022
 - Use quotes from the first meeting of the market reform discussion (Chris' email to us from the actual meeting and use a comment from one of the SC legislators as to why it's important)
- NC Legislation
 - Rep. Strickland
 - Not in HB 951 but key importance of it to energy legislation this session