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Debunking Claims About Low-Income Benefits of H-951

In an attempt to quell opposition to House Bill 951, several lawmakers -- on both sides of the aisle -- are making spurious claims about how the bill benefits and protects low-income customers. This document serves as a point-counterpoint breakdown explaining how those claims -- first made by Senator Newton but now being shared by other lawmakers -- are misleading our elected officials and the public.

Point 1: Energy resources that contribute to decarbonization must be selected by the NC Utilities Commission at "least cost"

This is true, but:

1. "Least cost" regulation is not concerned only with cost, but also considers system needs, reliability and other factors. As such, the resources that are ultimately selected won't necessarily reflect the "least cost" resource.
2. Additionally, we've had a "least cost" regulatory system for decades that hasn't helped low-income customers. In fact, nearly 20% of all Duke Energy residential customers qualify as low-income (less than 150% federal poverty level) and have an extremely unaffordable energy burden of more than 10% of gross household income, on average, which far exceeds the 6% affordability threshold. In other words, the "least cost" model doesn't do anything directly to help low-income customers.
3. Finally, the guarantee of utility ownership of new resources means achieving decarbonization will be <u>more costly</u> than it would be if we had a competitive wholesale market or all-source competitive procurement.

Point 2: The bill includes a provision establishing a utility on-bill finance program for energy efficiency

The provision noted by Newton only requires the establishment of an "on utility bill repayment program related to energy efficiency investments." It does not specify that the program must be accessible to low-income customers. In fact, it suggests that the program to be developed would be a <u>loan-based</u> program. Given that low-income customers are often also credit constrained and aren't likely to meet the underwriting requirements under a loan program, and further, that low-income customers are more likely than not to be renters, any program developed as a result of this bill is not likely to be accessible to or benefit low-income households.

Point 3: The multi-year rate plan provisions represent the "most restrictive, customer-friendly" MYRP in the nation

This statement is false. It is widely recognized that Hawaii has the gold plate model for performance-based regulation (PBR) and multi-year rate plans (MYRP) (with an equitable earnings sharing mechanism, or ESM). What's in H-951 isn't even as good as the compromise recommendations that came out of Gov. Cooper's "North Carolina Energy Regulatory Process in 2020. There is too much detail to go into here, but ultimately, as written, the PBR section still (a) gives Duke tens of millions in extra profits each year, for no apparent reason, through the 50 basis point deadband, (b) gives Duke the ability to lock in automatic rate increases of up to 4% per year (or nearly 8% over two years), which far exceeds the historic average, and (3) doesn't require any of the beneficial Performance Incentive Mechanisms (PIMs) to be selected in the application. In other words, the incentives that might be intended to address low-income affordability impacts of the bill won't necessarily be selected as part of Duke's PBR application, so any purported benefits for low-income households from this section are not guaranteed.

In reaching out to the Rocky Mountain Institute -- one of the nation's foremost experts on PBR and MYRP -- for their input on this section, they provided the following response:

1. The 4% revenue adjustment cap is high and would have compounding impacts on ratepayers throughout the MYRP.
2. The ESM needs a downside or other threshold to prevent utility ROEs (returns on equity) below authorized levels from triggering frequent rate cases.
3. **Rates are set based on forecasted costs which incentivizes the utility to inflate their forecasts.** The NCUC needs authority to address this via regulations.
4. PIMs being limited to 25 basis points individually, and the portfolio of PIMs to 1% of utility's annual revenue requirement is problematic. Additionally, the PIMs are restricted to outcomes solely or primarily within the utility's control which means that many desirable outcome-based PIMs may be excluded in the utility PBR application.

Point 4: "Federal Low-Income Home Energy Assistance Program (LIHEAP) funds are available to help low-income households afford their bills."

Response: Yes, NC gets more than $90M in LIHEAP funds each year. However:

1. This bill does not supplement LIHEAP, so this point isn't related to the bill whatsoever.
2. Even so, that funding isn't enough to pay off the more than $125 million Duke's residential customers owed as of July 31, 2021, and Duke-served households receive much less than the $90M in statewide funding (because that's the statewide total).
3. Less than 20% of low-income households actually receive LIHEAP funding.
4. Often the LIHEAP payout is only sufficient for covering one or two monthly payments for recipients and is not available throughout the year (funding runs out fast because there's more demand than assistance funding can cover).

Point 5: "The bill includes decoupling, which helps incentivize energy efficiency and flattens out people's bills (to provide more certainty)"

This statement is mis-leading at best. Decoupling only breaks the link between sales and revenues. It doesn't do anything at all to lower bills for customers on its own. You must have strong, mandated affordability and energy efficiency PIMs or programs, which this bill doesn't have. In fact, restricting the decoupling to the residential class places that class at greater risk of absorbing more of the costs related to decarbonization and grid improvement.

Point 6: The requirement to revise net energy metering helps low-income"

This is also mis-leading, at best. The statement is predicated on Duke Energy's contested claims that net energy metered (NEM) customers are being "cross-subsidized" by non-NEM customers. That claim hasn't been proven. Additionally, the revisions to net metering envisioned in this bill -- Duke's proposed NEM time-of-use rate -- in fact reduces the ability of low-income customers to invest in their own rooftop solar, which would help lower their energy bills.

Point 7: the renewable energy credit purchase option for customers helps customers invest in more RE (and then somehow saves them money)?

It is tone-deaf to claim that low-income customers who already can't afford their bills will somehow decide to pay more on their bill to purchase renewable energy offsets/credits.

Point 8: securitization saves customers money.

This true, but there is a big caveat. First, the bill limits the amount of coal plant retirement costs that Duke is required to securitize to 50% of the value of the coal plants being retired. Second, it only requires that 50% of the cost of "sub-critical" plants be securitized. In other words, securitization is great and can save customers money, but the impact of this section is minimized by these two limitations, especially given that some of the more costly plants on Duke Energy's books are "super-critical" and not covered by the provision.

Point 9: Job creators can remain competitive

Not if they have to close as a result of higher energy costs, which this bill will most certainly result in.

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