

June 16, 2020

The Honorable Bobby Rush
Chairman, Subcommittee on Energy
House Committee on Energy and Commerce
2188 Rayburn House Office Building
Washington, DC 20515

The Honorable Fred Upton
Ranking, Member, Subcommittee on Energy
House Committee on Energy and Commerce
2183 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Rush and Ranking Member Upton:

The National Rural Electric Cooperative Association (NRECA) represents more than 900 electric cooperatives. America's electric cooperatives are energy providers and engines of economic development for more than 20 million American homes, businesses, farms and schools across 48 states. Electric cooperatives play a vital role in transforming local communities.

On behalf of America's electric cooperatives, I thank the Committee for holding a hearing to examine the impacts COVID-19 is having on the energy sector. The fallout from the coronavirus pandemic has the potential to be catastrophic across many rural communities. As local business and industry close their doors and hardworking Americans lose their jobs, new economic projections show the nation's electric cooperatives and their consumer-members could suffer an immediate and lasting impact. Reduced electricity sales coupled with an increase in unpaid bills is forecast to cause the nation's electric co-ops to lose \$10 billion in revenue through 2022.

Not-for-profit electric cooperatives have no shareholders, are owned by the communities they serve and routinely return excess revenue to their consumer-members. Lost revenue can severely constrain the ability of certain electric co-ops to meet the needs of their community. Rural electric co-ops face high fixed costs, including maintaining 42% of the nation's electric distribution lines to serve just 13% of the nation's electric consumers.

I submit this statement to provide insight into how COVID-19 continues to impact electric cooperatives. As you consider additional steps to address the ongoing crisis, please consider that 1 in 8 Americans depend on a not-for-profit electric cooperative to keep the lights on and to empower their local economy. Electric cooperatives are built by, and belong to, the communities they serve. That focus on community drives cooperatives as they respond to evolving COVID-19 challenges and local concerns.

Financial Impact of COVID-19 on Electric Cooperatives

Declining electricity sales: Electric cooperative operating revenues are expected to decline by **\$7.4 billion** as electricity sales fall by 5% over the 2020-2022 period due to lower U.S. economic output caused by COVID-19 mitigation practices.

Electricity powers the American economy and a stalled economy uses less energy. As GDP growth falls in the wake of COVID-19, co-op electricity sales are projected to decline. Cooperative electric sales are expected to decrease 6.1% in 2020, 6% in 2021, and 3% in 2022, for an overall drop in sales of 5% over the period when compared to pre-COVID-19 projections, according to NRECA's analysis.

Unpaid Bills: A surge in unemployment combined with the effects of suspending disconnections is expected to increase balances of unpaid bills for electric cooperatives to **\$2.6 billion** through 2022.

Higher unemployment rates historically have been associated with higher levels of unpaid electric bills (delinquent payments of 60 days or longer) as consumers struggle to make ends meet. Most states, at some point, have put in place mandatory or voluntary disconnection moratoria in response to the COVID-19 crisis. Disconnection moratoria have been shown to raise delinquency rates as shut-offs are disallowed. These moratoria may also be perceived as an extension of a broad financial safety net with the effect of temporarily raising the delinquency rate to unusually high levels.

Overall, the effects of higher unemployment rates and disconnection moratoria on delinquency rates will be greatest in 2020 before gradually declining through the end of 2022. Delinquencies are expected to peak at \$1.8 billion in 2020, before declining to \$640 million and \$160 million in 2021 and 2022, respectively, as the unemployment rate improves and moratoria are lifted.

Solutions

As Congress continues to address the ongoing health and economic crisis, please consider these proposals to give electric co-ops the flexibility and relief to meet the immediate needs of their communities while ensuring the continued delivery of affordable, reliable electricity.

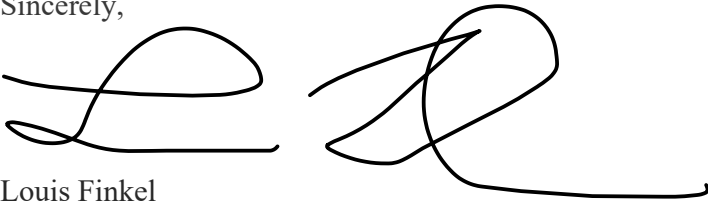
- 1. Allow electric co-ops to take advantage of unprecedented low interest rates by repricing RUS debt without penalty.** Nearly half of all electric cooperatives depend on the Rural Utilities Service (RUS) to finance their operations. Collectively, electric cooperatives hold over \$40 billion in RUS Electric Program loans. Many of these older RUS electric loans are set at significantly higher interest rates than the current market. However, unlike other consumer loans, RUS debt cannot be refinanced without penalty. A prudent step toward providing electric cooperatives with near-term flexibility is to allow the repricing of RUS loans at today's low rates without penalties. This will provide significant cost savings for the co-op and the community in the near term and establish a stronger foundation for the future.
- 2. Increase the amount of lending available under the RUS Guaranteed Underwriter Program.** The Guaranteed Underwriter Program provides guarantees for loans made to electric cooperatives by private cooperative banks such as the Cooperative Financing Corporation and CoBank. These not-for-profit lenders are an essential part of the financing portfolio for our members and are agile in times like these.
- 3. Increase Federal Assistance for Utility Payments:** Many states have mandated moratoria on utility disconnections and some members of Congress have proposed a similar federal moratorium. NRECA estimates that co-ops will see an unpaid bill total of \$2.6 billion due to a surge in unemployment, combined with the effects of suspending disconnections. Giving American families and businesses the support they need to help pay their utility bills is essential.

Programs Addressing Utility Bill Assistance: The House-passed "HEROES Act" includes utility payments as eligible expenses in both the emergency rental assistance and mortgage assistance programs. Utility assistance should be included in any program to provide relief for American families.

\$4.3 billion for LIHEAP: The Low Income Home Energy Assistance Program (LIHEAP) provides critical home heating and cooling help to millions of vulnerable American families. During the pandemic, LIHEAP is assisting newly unemployed and furloughed families afford their utility bills. We believe additional LIHEAP funding is needed.

Thank you for your consideration of these proposals. America's Electric Cooperatives are prepared to work with you to support bipartisan, emergency solutions to benefit the communities we serve and the nation.

Sincerely,

A handwritten signature in black ink, consisting of a large, stylized 'L' followed by a large, stylized 'F'.

Louis Finkel
Senior Vice President, Government Relations
National Rural Electric Cooperative Association