



June 15, 2020  
GM 20-120

The Honorable Frank Pallone, Chairman  
House Energy & Commerce Committee  
2125 Rayburn House Office Building  
Washington, DC 20515

The Honorable Bobby Rush, Chairman  
Subcommittee on Energy  
2125 Rayburn House Office Building  
Washington, DC 20515

The Honorable Greg Walden, Ranking Member  
House Energy & Commerce Committee  
2125 Rayburn House Office Building  
Washington, DC 20515

The Honorable Fred Upton, Ranking Member  
Subcommittee on Energy  
2125 Rayburn House Office Building  
Washington, DC 20515

**Re: June 16 Hearing on COVID-19 Impacts to the Energy Sector**

Dear Congressmen Pallone, Rush, Walden, and Upton,

Thank you for holding this important hearing on the impacts COVID-19 has had on the energy sector. As the nation's sixth-largest municipal electric utility, SMUD is not immune to the financial impacts of the pandemic even as we work round-the-clock to keep the lights on – safely.

The sudden need to shelter in place only highlighted the importance of electricity as the lifeblood of communities. SMUD and other electric utilities were confronted with two immediate challenges – making critical utility operations safe for our workers and ensuring that newly-unemployed customers maintain their electricity connection despite unexpected financial hardship. To that end, SMUD took a number of important steps.

First, beginning March 16, 2020, we restored power to our customers who had been disconnected for non-payment and suspended future disconnects and late fees for residential and commercial customers. That policy has been extended through Jan. 4, 2021. We also adjusted the eligibility criteria for our Energy Assistance Program Rate (EAPR) for low-income customers to allow more customers to qualify. In addition, we updated our website with resources for our business community and posted study-at-home educational resources focused on science, technology, engineering, art, and math (STEAM) relevant to energy.

To keep our staff and crews safe, we closed all buildings to the public and instituted social distancing procedures for our line crews, including producing a number of videos asking our

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customers to respect our crews' social distancing while they work in the community. We have also provided additional leave to our employees, paid increased wages for those we have had to sequester from their families, and incurred a number of costs associated with protecting our workforce and allowing as many as possible to work from home. We increased the frequency of cleanings in our buildings and gave up operational efficiencies in an effort to keep our employees safe while they keep the lights on for our community.

All these actions were the right things to do to respond to the crisis, but none are without costs. We are projecting that the additional assistance to low-income customers and waiving fees will cost SMUD \$19 million in 2020. COVID-19 related pay is projected to cost another \$15 million.

Our additional costs only paint part of the picture, however. As businesses in our community remain shuttered, we are projecting \$51 million in lost commercial revenue for 2020 (for reference, our planned net income is roughly \$40 million per year). While we see a slight uptick in residential use, our modeling based on the 2008 recession indicates we will see similar losses in the commercial sector for the next two years and an additional \$22 million loss in residential load revenue by 2022. We expect to write off an additional \$13 million in bad debt from customers who simply cannot pay their bills in 2020. We have also seen our primary source of financing, the bond market, seize up in response to the virus, and although it is functioning better now, we still anticipate a loss of \$4 million this year due to the illiquidity of the credit markets.

Although collecting data has been a challenge during this pandemic because utility bills are paid in arrears and do not become "past due" for 30 days after they are due, our financial team projects that due to these costs and losses, SMUD will need to take a risk-based approach to cutting our budgets for 2021 and 2022 to avoid increasing customer rates during this time.

Congress can, and has, taken action to respond to these impacts. In particular, SMUD appreciates the additional \$900 million in funding for the Low-Income Home Energy Assistance Program (LIHEAP) in the CARES Act. The House also made important changes to the program's eligibility criteria in the HEROES Act that would get those funds in more hands; we hope that provision will be enacted into law along with additional funds for the program. We also appreciate the CARES Act funds that the Federal Reserve has used to create the Municipal Liquidity Facility. That facility has only recently been opened up to political subdivisions such as public power utilities, and SMUD will be evaluating whether it may be a potential avenue for relief.

Unfortunately, most of the relief measures passed by Congress nearly miss public power entities like SMUD. Municipal entities are not eligible for the Paycheck Protection Program, nor are we eligible for the tax credits to cover new leave requirements (the HEROES Act would have fixed that, and we thank the House for including that provision). We continue to seek a comparable program that will provide forgivable loans to public power utilities.

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Importantly, SMUD requests that Congress resist calls to impose a one-size-fits-all, nationwide moratorium on utility disconnections. While we agree that turning off power to any of our customers is unacceptable during this time, local utilities are best positioned to determine their community's needs. A national policy could send a confusing message about whether payment is eventually due for service and exacerbate the non-payments we have seen.

Again, thank you for your attention to this important issue, and please do not hesitate to contact me with any questions or for more information as you craft future legislation.

Sincerely,



Arlen Orchard  
Chief Executive Officer & General Manager  
SMUD