

**Statement for the Record
Of the American Public Power Association to
The Senate Committee on Energy and Natural Resources for
The Hearing to Examine the Impacts of COVID-19 on the Energy Industry**

June 16, 2020

The American Public Power Association (APPA) writes today to thank the Senate Committee on Energy and Natural Resources for its consideration of the impacts of the COVID-19 pandemic on the energy industry. APPA is the voice of not-for-profit, community-owned utilities that power nearly 2,000 towns and cities nationwide. We represent public power before the federal government to protect the interests of the more than 49 million people and 2.6 million businesses that public power utilities serve, and the 93,000 people they employ.

As will be discussed in more detail below, APPA estimates that public power utilities will lose up to \$5 billion in revenues in 2020 due to the pandemic. While some actions Congress has taken – and could still yet take – will help at the margin, APPA strongly believes that, to ensure relief gets to all public power utilities needing assistance to the extent needed, Congress must provide direct aid to these community-owned utilities. We believe a forgivable loan program would ensure that aid goes to the utilities that need it. Such a program also would be cost effective in that loan proceeds would be forgivable only insofar as they were used as a credit against pandemic-related delinquencies or to partly offset pandemic-related declines in electric power load.

Since March, health care personnel and first responders have been on the front lines facing the COVID-19 pandemic. Likewise, Americans – and American businesses – have done their part to help stop the spread of this coronavirus through social distancing and quarantining. But critical to their success is the electricity that powers homes, businesses, and hospitals. Without electricity there would be no ventilators, lighting, cellphones, modems, sterilizing equipment, testing equipment, emergency dispatch, and the list goes on. Likewise, ambulances, fire trucks, and police cars may burn gasoline and diesel, but it takes electric pumps to refuel them. And it is electricity that makes our homes habitable and powers the devices that allow us to work remotely.

In providing this critical service, the top priorities for public power utilities throughout the pandemic have been the physical, logistical, and financial resources needed to operate while keeping workers and customers safe. Just some of the out-of-the-ordinary steps public power utilities have taken in response to the pandemic include:

- Redesigning work procedures and work sites to meet CDC recommendations;
- Acquiring resources – including testing, personal protective equipment (PPE), and other equipment;
- Building virus contact tracing programs and applications;

- Slowing and altering construction work, and work schedules, to minimize the possibility of infection spread;
- Quarantining and isolating workers in their homes or on site to ensure reliability; and
- Partnering with local organizations or setting up shops internally to create and manufacture PPE and sanitizer.

Public power utilities are also responding to their own financial challenges, including increased costs and reduced revenues. Financial concerns may seem secondary when life safety is on the line, but workers must be paid, the fuel that drives our power plants is not free, and equipment must be paid for when repairs are needed.

In addition to the cost of the new and unique operational steps discussed above, we also face the added costs all employers are facing, including increased sick time for workers infected by COVID-19 and the overtime paid to other workers who must take up the slack. In addition, as governmental employers, all public power providers are required by the Family First Coronavirus Response Act (FFCRA) to pay emergency paid sick leave and paid family leave, but are specifically precluded from receiving the payroll tax credits intended to offset the cost of providing these benefits.

Costs matter because public power utilities provide retail power at cost-based rates. That keeps rates lower, but also means that when costs increase, then rates must increase accordingly. As units of local government, public power utilities have no shareholders or equity partners to tap as a resource, but generally must rely on one source of funds: the fees their customers pay. Ultimately all utility operations – wages, fuel, power, capital investments – are paid with revenues from the sale of electric power. Some utilities manage day-to-day and month-to-month cash flow fluctuations by issuing short-term notes. Some also finance longer-term capital investments by issuing municipal bonds. But, again, ultimately both notes and bonds are repaid from revenue raised via the sale of electric power.

The problem is that utility customers across the country are facing their own financial challenges. Tens of millions of Americans are newly unemployed and tens of millions more are worried about losing their jobs. As result, delinquency in bill payments is increasing and the volume of uncollectable accounts is expected to rise as the effects of the pandemic play out. Most public power utilities suspended shutoffs. They have also provided their customers with flexible payment plans, informed them about the Low-Income Home Energy Assistance Program or other emergency assistance, and eliminated late fees and other charges for missed payment. They have done all this while still incurring the fuel, operation, and maintenance expenses necessary to provide their customers power and not receiving the revenue necessary to pay these expenses.

Arrearages

APPA surveyed its members in May on the financial effects of the pandemic, including arrearages. Historically, delinquent accounts total, on average, 7.3 percent of monthly revenue – or between \$300 and \$400 million. On average, the survey found that this amount has nearly doubled, increasing to just under 13 percent of monthly revenue. The **increase** in delinquents is therefore in the range of \$300-\$400 million monthly. The survey was conducted just one full billing cycle after the pandemic emergency began. With the effect of another 20 million job losses, we believe arrearages will be substantially higher in the next billing cycle. We also expect arrearages to continue to grow after June. The economy began creating new jobs in May, but there still has been a net job loss of 19.6 million jobs since February. Likewise, a recent Electric Power Research Institute survey shows 40 percent of respondents who are concerned or very concerned about being able to pay their electric utility bill and 26 percent of unemployed respondents saying they had skipped (or would skip) paying their utility bills. With an almost guaranteed increase in arrearages in June

and highly likely continued increases in such non-payments throughout the remainder of the year, APPA projects that arrearages are likely to reach at least \$1 billion, and possibly more, by the end of 2020.

In the CARES Act, Congress did supplement the \$3.74 billion fiscal year 2020 appropriation for the Low-Income Home Energy Assistance Program (LIHEAP) with an additional \$900 million. But some states are already running out of these supplemental funds, and the National Energy Assistance Directors Association (NEADA) predicts that demand will increase precipitously in the next several months.

In addition, some states, counties, and localities that received a portion of the \$150 billion Coronavirus Relief Fund (CRF) are developing programs to direct some of those funds to provide utility customer assistance grants to customers facing economic hardship as a result of the pandemic. These programs are based on welcome guidance issued by Treasury in May and fully supported by APPA. They are not, however, likely to address the deep financial needs public power utilities will face. First, it is unclear how widespread such programs will be or how much of the CRF will be dedicated to them. Second, given that public power utilities are just 15 percent of the retail electric market, and electric power is just one of several utilities for which aid may be provided, there is by definition a limited proportion of CRF funds dedicated to such programs that will flow to public power customers.

Revenue Loss Due to Decline in Load (Demand)

Additionally, APPA members surveyed in May also reported (on average) an overall decline in energy use. While there are wide regional variations, public power utilities nationwide report a modest increase in residential sales of approximately three percent, but declines in commercial and industrial load of approximately 10 percent. These load shifts are in line with broader trends in the sector. Smaller utilities tended to have smaller residential growth, but also smaller losses of commercial and industrial load. Several factors reduce the negative effective of declining sales. The prices paid for purchased power and/or fuel may have declined. Likewise, a decline in sales also means a decline in the need to generate and/or purchase power. To correct for these affects, APPA member utilities were also asked to project the net revenue effects of the pandemic. Most estimated revenue losses from zero to five percent, but two out of five estimated net losses of five percent to 10 percent or even more, with the impact felt harder in select states.

Based on these survey results, APPA used 2019 Energy Information Administration (EIA) data to create several scenarios converting revenue reductions experienced to date into revenue reduction projections for all of 2020. Under these scenarios, projected retail revenue losses ranged from \$2 billion to \$3 billion and projected wholesale revenue losses were roughly \$1 billion. Combined projected net revenue losses from wholesale and retail sales for 2020 were from \$3 billion to \$4 billion. By way of comparison, revenues to public power utilities totaled \$58 billion in 2017. Again, this is in addition to revenue declines due to arrearages.

APPA Priorities in Response to COVID

Direct Aid

APPA's top priorities in the ongoing pandemic are that public power utilities have the physical, logistical, and financial resources to continue to operate while keeping their workers and customers as safe as possible. Logistical and operational concerns are largely being addressed through our interaction with various stakeholder groups and federal departments and agencies. However, we believe our members' financial concerns should be dealt with through a collection of options including primarily the provision of direct aid to public power utilities. It is worth noting that while almost all of the 2,000 public power utilities operating in the U.S. would meet the Small Business Administration standard for being small – in fact nearly 1,300 have 10 or fewer employees – they do not qualify for the forgivable loans provided by the Paycheck

Protection Program (PPP) from which other small businesses are benefiting. However, we believe a mechanism akin to the PPP to help cash-strapped public power utility customers to replace the direct financial costs of pandemic-related declines in power usage would be appropriate. Under such a program, loan proceeds would be forgivable insofar as they were used as a credit against pandemic-related delinquent customer accounts or as a partial offset to pandemic-related declines in electric power load.

LIHEAP

APPA is also asking Congress to consider a \$4.3 billion supplemental appropriation for LIHEAP, the nation's single most powerful tool for providing need-based energy security. Again, the \$900 million supplemental for LIHEAP provided by the CARES Act is being helpful, but NEADA is already estimating that additional need will be closer to \$8.5 billion. This request is not redundant to the request for direct aid above: any unpaid bills paid by LIHEAP would not be forgivable under the loan program.

Bond Modernization

APPA also appreciates the work to create the Municipal Liquidity Facility at the Federal Reserve. We believe that, when implemented, this facility could provide a needed service as a lender of last resort for short-term debt. However, this facility is limited to short-term debt and will almost certainly be limited to the nation's largest state and local entities. As a result, APPA recommends two additional steps to help public power utilities with longer-term financing. First, to help smaller borrowers, we ask Congress to include in COVID-19 response legislation the provisions of H.R. 3967, the Municipal Bond Market Support Act. This bipartisan bill would expand the number of smaller issuers that banks – historically smaller local banks – are encouraged to lend to by increasing the small-issuer exception from \$10 million to \$30 million. Second, we ask Congress to include in COVID-19 response legislation the provisions of H.R. 2772, the Investing in Our Communities Act. This bipartisan bill would reinstate the ability to issue tax-exempt advance refunding bonds. Tax-exempt advance refunding bonds saved public power utilities more than \$600 million from 2013 to 2017 (the last year tax-exempt advance refunding was allowed) – savings passed onto utility customers or reinvested – and could provide needed financial relief today and in the future.

Comparable Incentives

If Congress includes provisions to expand or extend energy-related tax incentives in COVID-19-related legislation, APPA asks that they also be modified to provide a comparable incentive to public power utilities. Currently, tax incentives provide no direct benefit to public power or electric cooperative utilities, both of which are exempt from tax and collectively provide power to nearly 30 percent of retail customers. If Congress intends to create incentives in pursuit of national energy goals, it should realize that tax-based incentives will not have the market-wide reach of direct grants and other incentives. We support tax credit refundability – as provided under the discussion draft for the Growing Renewable Energy and Efficiency Now – as one mechanism to allow in the sector to benefit, including public power utilities, electric cooperative utilities, investor-owned utilities, and merchant generators.

Power Marketing Administrations (PMAs)

Finally, APPA appreciates the emergency supplemental appropriation provided under the CARES Act to the hydropower programs of the nation's Power Marketing Administrations, the U.S. Army Corps of Engineers, and Bureau of Reclamation. The CARES Act, however, failed to amend current law, which requires that these emergency appropriations be recovered with rate increases by electric customers. APPA believes that Congress should explicitly state that CARES Act emergency funds may not be recovered in rates from customers of the Federal Power Program. Now is not the time to raise rates charged to federal hydropower

customers such as public power utilities and rural electric cooperatives, who would in turn have to raise rates to their retail customers – the opposite of what is intended in the CARES Act.

Conclusion

As discussed above, APPA is keenly aware that there are many key players in the nation's fight to respond to the coronavirus epidemic. All these players rely on electric power. Public power utilities are working to ensure that they have the physical, logistical, and financial resources needed to operate while keeping workers and customers as safe as possible. We will continue to work with federal and utility sector partners to address operational concerns, and we have identified above a list of priorities to help with our members' financial needs resulting from the pandemic. Each of these items will be of help to our members and their customers, but a critical keystone to this proposal is direct aid in the form of a direct forgivable loan to public power utilities.

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