KEC KANSAS ELECTRIC COOPERATIVES, INC.

A Touchstone Energy® Cooperative

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Informational Briefing of COVID-19 Pandemic Impacts on Electric Cooperatives

Special Committee on Economic Recovery
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Presented by Leslie Kaufman, V.P. of Government Relations & Legal Counsel
Kansas Electric Cooperatives, Inc.

Senator Lynn, Chair of the Special Committee on Economic Recover, Vice Chair Tarwater, and committee members, thank you for the opportunity to comment regarding some of the COVID-19 pandemic impacts on our state's electric cooperatives. I am Leslie Kaufman and I serve as the V.P. of Government Relations and Legal Counsel for Kansas Electric Cooperatives, Inc. (KEC).

KEC is the Kansas statewide service organization for 27 electric distribution cooperatives and three generation and transmission cooperatives. KEC represents the interests of and provides needed services and programs to the electric co-ops that serve Kansans. Our major programming areas include advocacy, education, communications, and safety/loss control.

Electric cooperatives are, by statute, nonprofit membership corporations. They are owned and controlled by the consumer-members they serve. As a cooperative, excess margins are returned to the consumer-members. So, when cooperatives suffer financial hardships, their consumer-members are impacted.

No two cooperatives are exactly alike. Their customer mix between residential, small business, and large commercial loads vary based on the territory they serve. Our smallest cooperative has fewer than 1,500 members. The largest has a membership approaching 50,000 electric and gas consumer-members. The median customer base is around 5,000 members and median line density runs just over 3 meters per line mile.[1] While each cooperative is uniquely impacted by the pandemic, we have pulled examples of challenges our members are facing during this unprecedented time.

Recently, we polled a group of KEC member co-ops, asking for specific information on COVID-19 impacts. The co-ops varied in size, load character, and geographic location. KEC was asked to respond to certain questions in our testimony today. We have used the information gathered from members to form general observations in our responses. We have included additional impacts in the Appendix accompanying this testimony.

[1] *The membership and line density numbers include system-wide totals for all KEC distribution cooperative members. That includes one KEC member with consumer-members in both Kansas and Oklahoma and the customers served by a not-for-profit electric company that is a wholly owned subsidiary of an electric co-op.*

Severity of economic impact of pandemic and shutdown/restrictions on your sector
For many members, overall kilowatt sales are down. While some may see residential and irrigation energy use holding flat or on a slight uptick, that does not appear to be making up for lost sales volume on the commercial side. Percentage losses in our survey group range from 7.3% overall to 30.2% for certain customer classes. For example, that translates into expected budgetary losses of $1.5 million, $1.8 million and more for certain co-ops.

How long might it take for electric co-ops to get back to pre-COVID levels/potential business failures
As noted above, the impacts of the pandemic vary from co-op to co-op. The degree of impacts sustained depends greatly on the co-op's load profile and customer mix.

In the event of a prolonged shutdown, lack of broadband access in some areas will greatly affect the viability of some communities and the need for electric service. We will discuss broadband again later in our testimony.

Impact of government actions to date – shutdowns, restrictions, masks requirements, etc. – on electric cooperatives
Co-ops reacted quickly to the COVID-19 outbreak, putting measures in place to protect the health and safety of workers and consumers and ensure service continuity. Co-ops were particularly worried about the possibility of widespread spring and summer storms and have plans in place to get the lights back on as quickly as possible, while protecting the health and safety of utility workers. A critical component in this planning was the designation of utilities, utility workers and those supporting utilities as "essential services."

Protecting all co-op employees, but particularly line workers and critical systems personnel, has been a key concern. Cooperatives will take appropriate measures even if it is not mandated by a government entity, and our protocols may even exceed government orders.

We do not want to wade into a mask or shutdown debate. We understand the desire to allow local governments to adapt to their individual situations and respect local control. On many issues, we as co-ops recognized that "one-size does not fit all" and have asked policymakers to allow flexible approaches. Thus, we understand a balancing of interests is taking place.

But, just looking at things from a management perspective, when you have staff traveling all across the state, or throughout a multi county service territory, there is increased simplicity with a common approach to basic safety considerations.

One thing we knew from past experiences and it is proving true again — government moratoriums on disconnects are not the answer. Co-ops care about our members financial well-being and are working with members to find manageable payment options. Getting on a payment plan helps ensure customers are not falling further and further behind on their bills, creating an insurmountable financial hurdle for them once the moratorium is lifted. Moratoriums often entice additional delays in addressing payment issues, making the problem even bigger in the end.

Each co-op has their own structure for addressing delinquent accounts. A growing trend in the industry is establishing prepaid billing programs. Cooperatives are finding the programs help customers manage their electricity use more wisely and, since they pay for service prospectively not retrospectively, they have less of a risk of falling behind on their bills.

Cooperatives are working with their members to find workable solutions, ones that positively address challenges and do not exacerbate them. Co-ops actively try and minimize delinquent accounts because they know when individuals do not pay their bills, that increases the burden on the other consumer-members on the system.

How might an increase to any tax source impact your sector
Sales tax on electric service is a straight pass through, while sales tax on cooperative purchases (materials, supplies, labor) will hit the bottom line. This will impact members in their patronage allocation (allocating excess margin) and in future rate increases. In both cases, customers' electric bills could be impacted by an increase in sales taxes.

The same holds true with property tax increases. Property taxes are a significant portion of co-ops annual business expenses. An increase in property taxes will flow to the bottom line affecting both patronage allocation and future rate increases and ultimately customers' electric bills.

Electric co-ops paid an estimated $50 million in property taxes <u>primarily to local tax units</u> (counties, townships, cities, school districts, etc.)

Recommended government/regulatory actions to assist the recovery process for your sector
We encourage the legislature to refrain from implementing further moratoriums for the reasons noted above.

We do believe some Kansans need additional help in meeting their utility expenses. Co-ops have long supported the Low Income Energy Assistance Program (LIEAP). We encourage policymakers to ensure any pass-through dollars from the federal government for utility bill assistance (like LIEAP), is fully expended. Whether the money is appropriated through a regular budgetary process or comes to the state through a COVID-19 relief package, the monies should be distributed to those in need in a timely manner.

Kansas has an opportunity to fund meaningful broadband enhancement with CARES dollars. We encourage state policymakers to increase broadband funding to assist connectivity for hospitals, telemedicine, and other health care providers; businesses; and educational facilities. It will have a major impact on all sectors in the short and long term. KEC has joined with the Kansas Farm Bureau, the University of Kansas Health Systems and Communications Coalition of Kansas in supporting one such initiative presented to the SPARK Taskforce.

The COVID-19 pandemic is changing how we live and work. Unfortunately for many, there will be heartaches and struggles as we navigate this road. Through it all, electric cooperatives will continue to look for opportunities to protect their workers, support their communities, and keep the lights on.

Thank you for the opportunity to comment today. We welcome questions now or you may contact us later.

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APPENDIX

The following are highlights on impacts of COVID-19 to a few of our electric cooperatives. Informal survey was conducted during the final days of July 2020.

Co-op 1

- Since April 1 co-op's commercial load is down 15% from last year and its total year-to-date load is down 7.3% from budget.

Co-op 2

- Compared to last year, co-op's commercial sales have been down about 20% with a majority of those being oil/gas accounts.
- Co-op's past due accounts are now comparable to last year, so for the most part, co-op says it appears its members have recovered from the shutdown.

Co-op 3

- Co-op has seen an average decrease in revenue from natural gas wells of about 11%, and oil revenue is down about 18%, both year over year.
- The number of oil wells that are now idle – using no electricity – has gone up 10% year over year.
- Oil and gas make up about 14% of co-op's total revenue per year.

Co-op 4

- Co-op has experienced a significant loss of revenue/kWh sales during the pandemic. Co-op says it has been monitoring sales weekly (starting April 1) for its system as compared to the same week a year ago.
- During this time, co-op has several rate categories that have seen a significant reduction in kWh sales:
  - general service medium (-13.8%).
  - general service large (-16.9%).
  - industrial pump stations (-30.2%).
  - oil classes (-27.2%).
- While the downturn in oil was not due to COVID, it has been complicated by COVID with shutdowns, limited travel, and less demand for oil. Co-op us seeing an increase in oil and industrial pumping load over the past few weeks.
- Residential load has increase during this pandemic. Co-op attributes this increase to more families staying home, traveling less, and kids being at home rather than school.
- Irrigation has seen a significant increase as well due to drought conditions in early spring/summer.
- Overall, kWh sales are down approximately 14.5MM kWh (9.4%) since April 1. Co-op estimates it lost approximately $1.5MM in revenue.

Co-op 5

- Co-op has seen a decrease (30% in March, now about 15%) in sales from the oil/gas industry, and some have opted to disconnect accounts.
- Co-op had one large company that never had a late payment before but has a sizable unpaid balance at this time. Other than that, co-op's past due balances have not changed.

Co-op 6

- Co-op had an under 5% drop in oil sales (this year as compared to last year) but only because it picked up new oil load in the fall of 2019.
- Co-op's biggest [COVID] expense has been in adding technology for work-from-home options for the staff — lap top purchases, contracted (as it does not have its own IT) network labor hours in creating VPNs. Also building upgrades (permanent glass in the front entry) to protect front-end employees and extra cleaning services/products to sanitize building properly.
- Co-op's delinquent accounts receivable has had a slight uptick.

Co-op 7

- Running about $3M below revenue projections through June. Do not expect to be able to make that up [at least not all of it].
- Loss of about 18 MW load.
- Co-op customer base is mostly commercial/industrial base, not much residential load.
- Pressure on cash flow, so delaying O & M.
- At this time, do not expect to be able to retire patronage capital at end of year and that will break a long history of annually retiring capital credits.

Co-op 8

- Accounts receivable holding steady. Co-op believes that is largely due to efforts over the last year or so to work with customers who had a history of difficulty paying bills and moving them to a pre-pay billing option.

Co-op 9

- Oil-related "gross margins" (total revenue less cost of power) are down about $1 million to date and co-op expects to end the year down $1.8 million.
- Co-op projects bad debt expense to be up $200,000 for the year.
- Holding 12 employee vacancies open.
- Deferred about $5 million in electric construction. Co-op says there could be increased costs for these projects later, but that is hard to predict.