

## Financial Impact of COVID-19 on Electric Cooperatives: \$7.4 Billion Hit on Operating Revenue and \$2.6 Billion in Unpaid Bills

### Key Findings

- The economic impact of COVID-19 will have immediate and lasting effects on electric cooperatives. The impact of lost load and unpaid bills are projected to total \$10 billion through 2022.
- Electric cooperative operating revenues are expected to decline by **\$7.4 billion** as electricity sales fall by 5% over the 2020-2022 period.
- A surge in unemployment, combined with the effects of suspending disconnections, is expected to increase balances of unpaid bills to **\$2.6 billion** through 2022.

### Loss of Revenue from 5% Decline in 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.

This estimate is based on the relationship between electricity sales and economic output, measured by the Gross Domestic Product (GDP). That is, a growing economy requires greater electricity use. As GDP growth falls below pre-COVID-19 projections, electric co-op electricity sales are projected to decline.

Forecasts from Moody's Analytics<sup>1</sup> indicate a sharp decline in the economy with GDP falling about 7% below pre-COVID-19 projections in 2020 and 2021 and about 3.6% below in 2022. These impacts, combined with historical data on the correlation between electricity use and economic output<sup>2</sup> indicate corresponding reductions in electric co-op sales of 6.1% in 2020, 6% in 2021, and 3% in 2022, for an overall drop in sales of 5% over the period (See Figure 1.)<sup>3</sup> This loss of load will lead to an estimated decline in electric co-op sales revenue of \$7.4 billion over the next three years.

### High Unemployment Will Spur Higher Level of Unpaid Bills

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

Declining economic conditions fostered by social distancing practices to curb the spread of the COVID-19 virus have caused businesses to shut down and are pushing unemployment upwards, potentially to levels not

<sup>1</sup> See slide no. 5 of the PJM presentation link: <https://pjm.com/-/media/committees-groups/committees/pc/2020/20200414/20200414-item-11-recent-load-impacts-of-covid-19.ashx>.

<sup>2</sup> The electric co-op electricity sales/GDP ratio averaged 0.84 over the ten-year, 2009-2018 period.

<sup>3</sup> Note a more rapid GDP recovery than assumed would reduce the projected impacts to electricity sales in 2021 and 2022.

seen since the Great Depression. NRECA estimates that nearly 2.5 million jobs in electric co-op-served areas are in the most at-risk sectors of the economy, including the extraction, travel, transportation, employment services, and leisure & hospitality industries.<sup>4</sup>

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. This analysis assumes that the U.S. unemployment rate peaks at 20% in the second quarter of 2020<sup>5</sup> and then gradually declines to the 5% range by the end of 2022.<sup>6</sup>

Forty-six states have in place mandatory or voluntary disconnection moratoriums in response to the COVID-19 crisis.<sup>7</sup> Disconnection moratoriums have been shown to raise delinquency rates as shut-offs are disallowed.<sup>8</sup> Moreover, in today's uncertain economic environment, disconnection moratoriums may 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 moratoriums on delinquency rates will be greatest in 2020 before gradually declining through the end of 2022 (See Figure 2.) 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 moratoriums are lifted.

---

<sup>4</sup> "Estimated 2.5 Million of the Jobs Most at Risk from COVID-19 Economic Impacts are in Co-op Areas," Business & Technology Advisory, NRECA, April 2020.

<sup>5</sup> J.P. Morgan U.S. Economic Forecast Summary, J.P. Morgan.

<sup>6</sup> Moody's Analytics, <https://www.moodyanalytics.com/webinars-on-demand/2020/covid19-q-and-a>.

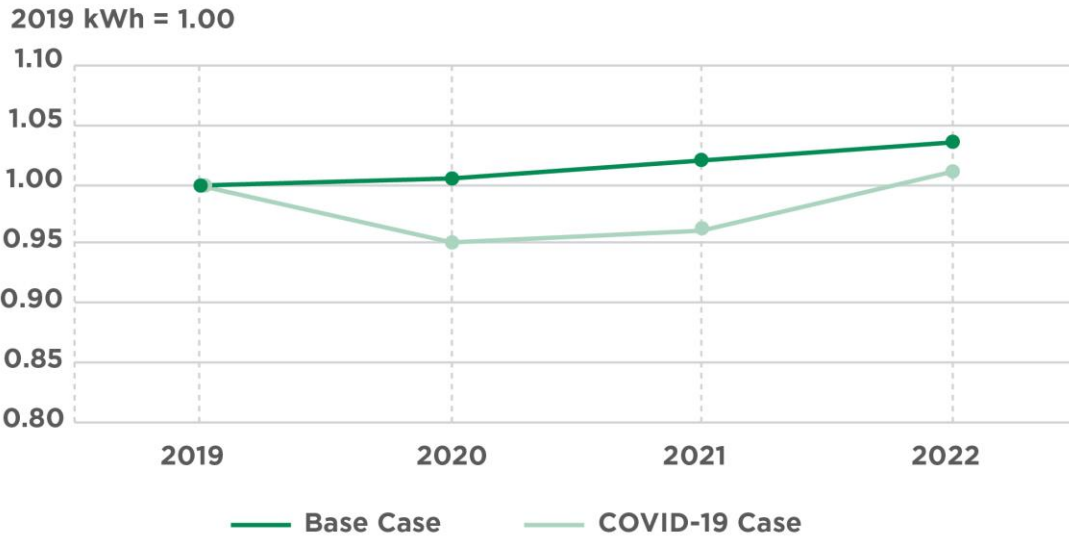
<sup>7</sup> <https://www.naruc.org/compilation-of-covid-19-news-resources/map-of-disconnection-moratoria/>; [The moratoriums apply in states where co-ops are not generally subject to state regulation.](#)

<sup>8</sup> Disconnection moratorium in Arizona during the summer of 2019 increased unpaid bills by three times over the amounts recorded during the previous summer when no moratorium was in place.

<https://www.azcentral.com/story/money/business/energy/2019/10/15/utility-companies-aps-power-shutoffs-allowed-again-arizona-weather-cools/3925854002/>.

FIGURE 1

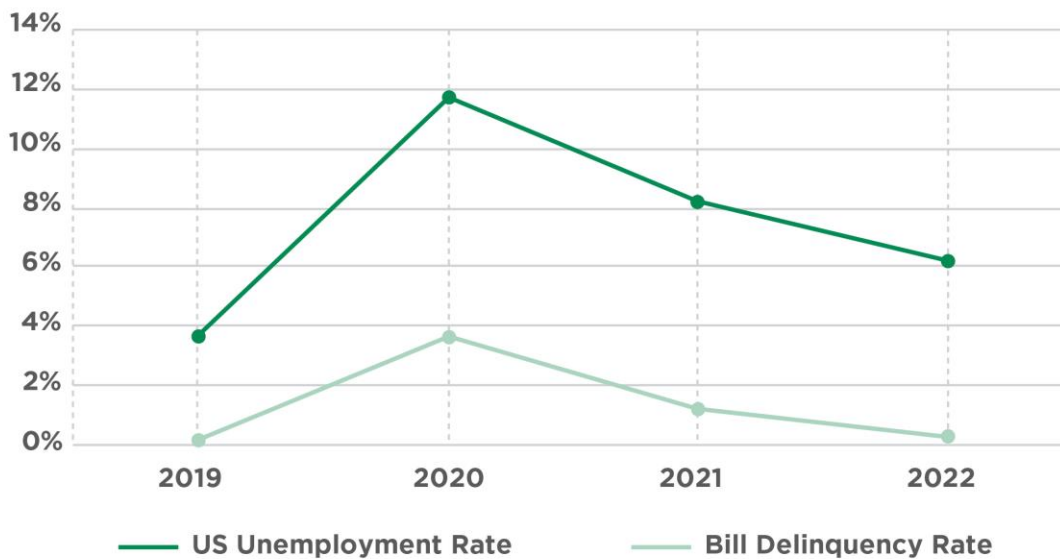
### COVID-19 Impact on Electric Co-op kWh Sales 2019 - 2022



Sources: Moody's Analytics, NRECA

FIGURE 2

### COVID-19 Impact to US Unemployment Rate Increases Bill Delinquency Rates 2019 - 2022



Sources: Federal Reserve Bank of St. Louis, J.P. Morgan, Moody's Analytics