

Projected Economic Outcomes of DEMCO's Power Supply Contract with NextEra

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Introduction

DEMCO is proposing to purchase, starting in 2024, electricity from NextEra, a company that owns Florida Power and Light, the largest rate-regulated electric utility in the country based on electricity produced and sold and serves more than 5.6 million customers. NextEra is a Fortune 200 company and is included in the S&P 100 Index. NextEra is investing in Louisiana with a Solar Farm in Tangipahoa Parish which will supply electricity to DEMCO starting in 2024.

DEMCO is proposing to purchase its electricity from NextEra because DEMCO can lower its rates to its residential and business customers in the seven parishes in Louisiana for which it provides electricity.

As in all other basic economic decisions, DEMCO's determination to lower its utility rates to its customers will have other economic impacts and, in this case, providing additional dollars to its customers that can be spent in other ways. Any time a company like DEMCO can save its customers money, it opens up a series of transactions that, otherwise, could not have occurred in the local economy. Savings from lower utility bills are especially noteworthy since all families, lower income, middle income, or higher income, benefit from the lower utility bills.

We will first describe DEMCO's customers by geographic location and income status; identify the potential savings by DEMCO's customers due to the contract with NextEra, and then provide estimates of the additional economic activity that can be initiated since DEMCO's clients will have additional dollars to spend on other purchases. This economic activity will focus on (1) job creation, (2) income improvements, and (3) state and local tax collections. All three of these outcomes will be occurring at the same time.

DEMCO's Customers and Lower Electricity Prices

DEMCO services around 113,000 households and a number of businesses in seven parishes, Ascension, East Baton Rouge, East Feliciana, Livingston, St. Helena, Tangipahoa, and West Feliciana. All of these parishes are in the Baton Rouge MSA except for Tangipahoa Parish, but

Tangipahoa borders on Livingston Parish and has very few DEMCO customers and these customers are near the Livingston/Tangipahoa border.

DEMCO's residential customers are described by parish in Table 1. DEMCO's customer base includes almost entirely the parishes of East and West Feliciana, St. Helena, and Livingston. We also note the variation in terms of number of house units, the median household income, and the poverty rate across the seven parishes. The poverty rates are relatively high in East Feliciana, St. Helena, and West Feliciana Parishes where DEMCO has proportionately a large number of customers within each parish but only about 15% of its total customers in these three parishes in the seven-parish region. The poverty rates are relatively low in Ascension and Livingston, parishes in which DEMCO provides electricity services. Over 70% of DEMCO's residential customers are in East Baton Rouge Parish and Livingston Parish.

The current average annual utility bill as a percent of median household income ranges from a low of 1.9% in Ascension Parish to an estimated high of over 3.4% in St. Helena Parish. The annual average utility bill as a percent of median household income for all seven parishes is 2.42% with the projected annual utility bill being just over \$1,500. This average, of course, will vary from parish to parish and from households with higher incomes as compared to households with lower incomes.

As with any other business, DEMCO is trying to provide quality service for the lowest possible price for its customers. DEMCO searched for alternative sources of electricity and discovered the ability to provide the same quality of electricity at lower prices over 2024-2033 by entering into a full requirements contract with NextEra, which also included the creation of a solar farm in Tangipahoa Parish.

Electricity from the solar farm will cost initially just slightly more than one-half of the overall price of electricity produced by other energy sources and by 2033 its cost will be just over one-third of the price of other electricity sources. Electricity from solar farms is projected to lower the overall cost of electricity to the household significantly throughout the 2024-2033 time period.

Table 1. DEMCO’s Residential Customer Base by Parish*

Parish	Total Housing Units	DEMCO Customers by Parish, 2020	DEMCO’s Share of Housing Units in Parish	Median Household Income	Poverty Rate by Parish
Ascension	49,462	15,086	30.5%	\$80,527	10.8%
East Baton Rouge	196,145	35,552	18.1%	\$54,948	16.7%
East Feliciana	8,645	6,062	70.1%	\$51,803	19.6%
Livingston	58,646	45,356	77.3%	\$63,389	11.3%
St. Helena	5,418	5,251	96.9%	\$43,866	19.6%
Tangipahoa	57,547	626	1.1%	\$47,832	17.9%
West Feliciana	5,547	4,527	81.6%	\$59,637	24.4%
DEMCO Base	381,410	112,460	29.5%	\$56,815	

***Based on Louisiana Public Service Commission, Louisiana Poverty Rate By Parish (indexmundi.com) and the Census.**

DEMCO provides over 95% of the electricity usage in St. Helena Parish, over 80% of the electricity usage in West Feliciana, over 70% of the electricity usage in East Feliciana, and almost 80% of the electricity usage in Livingston Parish. In Ascension Parish DEMCO provides just over 30% of the electricity usage and about 18% of the electricity usage in East Baton Rouge Parish.

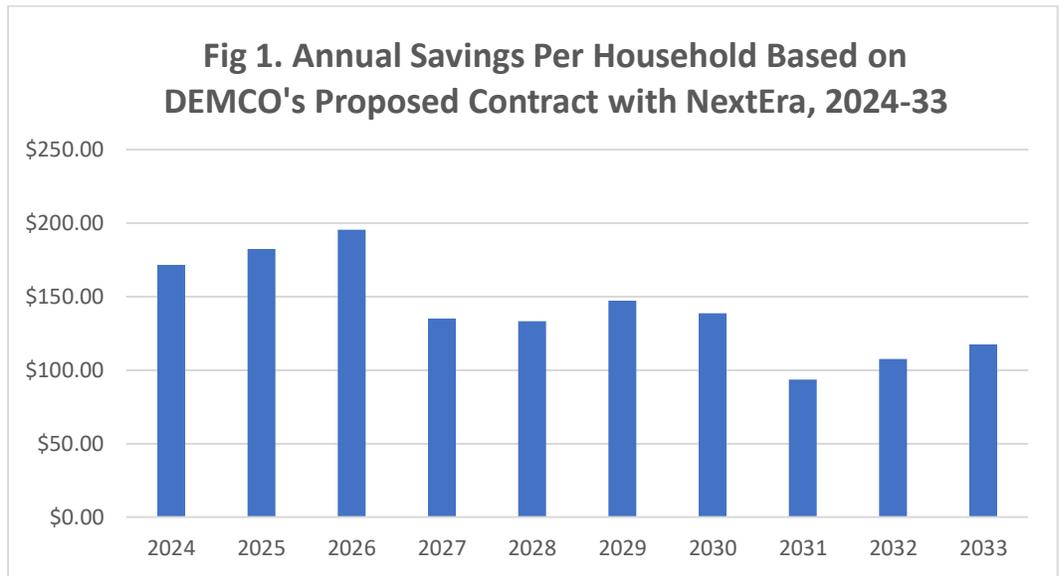
Lower electricity prices are good for all customers but perhaps even more so for those households that are at or near the poverty level or those households with low household income levels. Three parishes, East and West Feliciana and St. Helena have poverty rates close to 20% or more of their household units and these parishes are above the state’s poverty rate of 18.6% according to the IndexMundi, an organization that maintains county data across the nation and the globe.

In any case and regardless of income levels, having to pay less for electricity to be used in their homes or apartments or in their businesses will allow individuals and families to spend more on other goods and services. These additional spending dollars will create additional economic activity around the towns, cities and parishes.

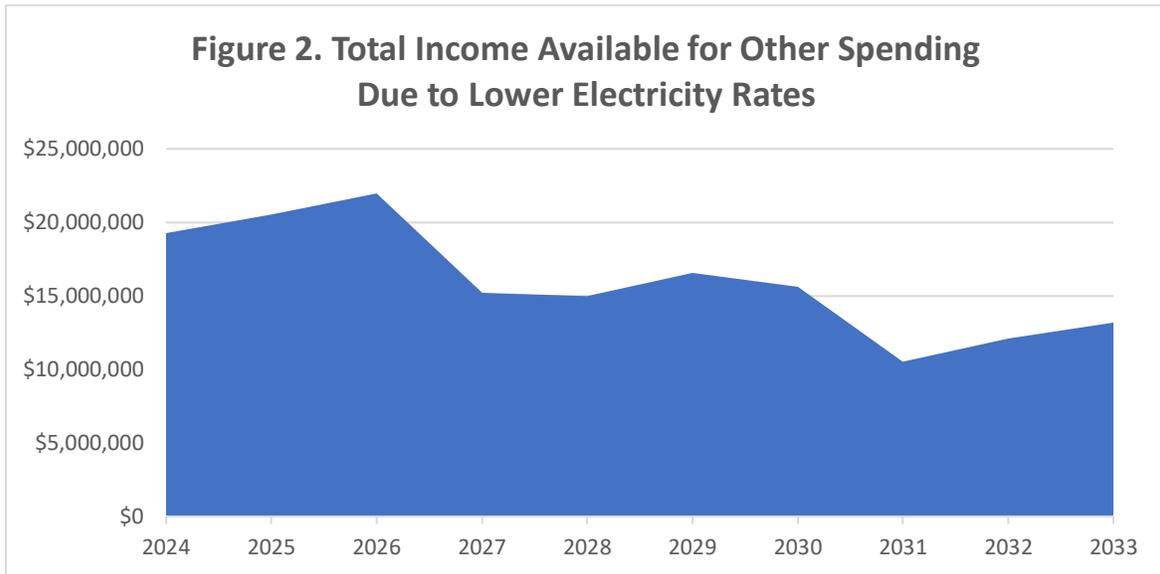
Economic Impact of Lower Electricity Rates

The estimated savings per household in the DEMCO Service Area due to lower rates for electricity from 2024 through 2033 are illustrated in Figure 1.¹ The estimated savings per customer range from \$171.47 in 2024 to \$117.31 in 2033. The estimated savings for all DEMCO household customers from 2024 through 2033 are noted in Figure 2. The estimated savings for all DEMCO household customers range from around \$20 million per year from 2024 through 2026 and then average savings of just over \$14 million per year from 2027 through 2033.

These are dollars that can now be spent on different goods and services with many of these dollars being spent in the communities in which the DEMCO customers work and play.



¹ Based on DEMCO's estimates.



These dollars saved by households will be a new input to be spent in the local economies. The economic impact of these new dollars being spent in the local economy is based on the Regional Input-Output Model as developed by the U.S. Department of Commerce. This model focuses on the Baton Rouge MSA and all of these parishes are in the Baton Rouge MSA with the exception of Tangipahoa Parish but this parish only has about 1% of DEMCO’s customer base. An input-output model traces through the spending of a dollar in a certain industry to all other industries in the region and taking into account that some of the spending will be completed outside the region being analyzed. The model provides estimates of net new jobs that will be supported, earnings associated with the jobs, and new state and local tax receipts that will be generated.

The total savings over the 2024-2033 time period amount to \$1,422 per household or a grand total of almost \$160 million or about \$16 million per year. The net present value of these savings as of 2021 is \$144 million or about \$14.4 million per year.

The increase in economic activity, personal income, jobs, and state and local tax receipts due to DEMCO’s ability to generate lower electricity rates from 2024 through 2033 are summarized in Table 2 on an annual basis and for all ten years.

Table 2. Expanded Economic Activities Due to Lower Electricity Prices for DEMCO Customers, 2024-2033

	Average Activity Per Year	Activities Over All Years
Additional Spending in Economy That Promotes More Economic Transactions	\$15,993,443	\$159,934,426
Increase in Economic Transactions Due to Lower Electricity Rates	\$26,709,049	\$267,090,492
Additional Personal Earnings Due to the Increase in Economic Transactions	\$8,970,722	\$89,707,227
New Jobs Being Supported Because of New Dollars to Spend	273	2,732 Supported over 10 years
State and Local Tax Receipts Related to Additional Economic Activity	\$1,211,047	\$12,110,475

The reduction in electricity rates as provided by DEMCO is the factor that allows additional spending in the local economies with this additional local spending being \$159.9 million over ten years or, on average, about \$16 million per year. This additional spending initiates additional transactions by people purchasing more goods from businesses in their communities which leads these businesses to make additional transactions. The increase in economic transactions leads to new jobs in the local communities and new personal earnings. And, new jobs and new earnings lead to additional state and local tax receipts to support public services. These estimates are based on all dollars saved from lower electricity rates will be spent.

Some of the new dollars available to DEMCO customers due to the lower electricity rates may not be spent immediately. Each household will make different uses of its additional income. The dollars are still available to be spent in future years. In this case, the economic impact will be spread over a longer time period. Households served by DEMCO will still have additional income due to the lower electrical rates and will make use of that income in the best interest of their households.