

Testimony of

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Before the

Senate Agriculture Committee

“Looking Ahead: Kansas and the 2012 Farm Bill”

Wichita, Kansas

August 25, 2011

Thank you, Chairman Stabenow and Ranking Member Roberts for this opportunity to testify before the Committee. Electric cooperatives and the communities we serve utilize a number of programs authorized in the Farm Bill, and we appreciate this opportunity to share with you how those programs help us meet our goals and strengthen rural America.

I am Kathy Brinker and I serve as the general manager of Nemaha-Marshall Electric Cooperative located in Axtell, Kansas. Our electric cooperative provides affordable, reliable electricity to 3120 homes, farms and businesses in northeast Kansas. Nemaha-Marshall was incorporated in 1938 by rural residents to serve rural consumers in all of Nemaha and Marshall counties and parts of Washington, Pottawatomie, and Jackson counties in northeast Kansas. We border Nebraska to the North and the Blue River to the west. Our co-op builds and maintains over 1500 miles of electric distribution line with only 2.17 electric meters per mile.

We currently have 21 employees who live and work with our members, and we are governed by a democratically elected Board of Trustees who also live and work locally. Our cooperative participates in farm safety days, supports the local 4-H and FFA groups, attends job fairs at

our local schools, and works with our local law enforcement and fire departments to educate students and emergency personnel about electric safety. Our employees volunteer their time on local boards and organizations in the small communities where they live. This commitment to community is not unusual in our part of Kansas, and we like to think of ourselves as just one of many good neighbors.

In the case of Nemaha-Marshall and other electric cooperatives, this commitment to community is not a coincidence, it is the way we were designed to work. Our business model and cooperative principles recognize that local decision-making and management benefits the local community and those communities in turn strengthen us.

Nemaha-Marshall is one of the 30 electric cooperatives in Kansas which serve 464,649 people. There are more than 900 not-for-profit, member-owned rural electric cooperative systems across the United States. In total, those co-ops serve 42 million customers in 47 states. The National Rural Electric Cooperative Association (NRECA), our not-for-profit service organization, estimates that cooperatives own and maintain 2.5 million miles

or 42 percent of the nation's electric distribution lines covering three-quarters of the nation's landmass.

Rural Utilities Service

Providing electric service in sparsely populated states like Kansas has always been a challenge. After the Rural Electrification Act was first passed in 1936, and the REA (as the Rural Utilities Service was then called) analyzed Kansas – there was a question whether the population density in the state was high enough to support electric infrastructure. And since that time the population density has decreased. Today, cooperatives in Kansas average just 3 customers per mile of distribution line, compared to an average of 19.4 customers statewide. In Michigan, that co-op average is 8.1 customers per mile of line compared to a statewide average of 37.8. Still, even under those challenging conditions, Kansas co-ops brought electric service to families in every corner of the state, and today those co-ops continue to meet the challenge of keeping the lights (and air-conditioning) on every single day.

Rural Utilities Service Electric Loan Program

Co-op service areas are often large and their populations small, so the not-for-profit electric co-op model is very important in providing affordable, reliable electricity to our members. Since there are fewer people to share those high fixed costs, affordable credit through Rural Utilities Service (RUS) loans is key to our operation.

The Rural Utilities Service is 76 years old, and still plays a vital role helping electric cooperatives provide reliable, affordable electricity. RUS loans have been a particularly important source of reliable credit for Kansas electric cooperatives. In the last five years alone, RUS has approved more than \$400 million in loans to Kansas electric cooperatives. Those loans are used to replace poles and wires, improve co-op facilities and provide up-to-date technology.

Nemaha-Marshall Electric Cooperative recently applied for an RUS loan to convert our metering system and upgrade our facilities to bring us into the 21st century. Many of our cooperative facilities are over 60 years old and need to be replaced. Today's customers include larger farming operations with different power needs than those of 60 years ago. This RUS

loan will help us meet the changing needs of our consumers and provide the best service possible. For example, previously we used a billing system where each member read his or her own meter and figured the bill using a rate chart. RUS loans will allow us to move to a system where the meter is read remotely and the bill determined for the member, and also provide tools for managing energy use.

The RUS Electric Loan levels are authorized by Congress every year in the Agriculture Appropriations bill. The loan level of the largest program, Federal Financing Bank loans, has been set at \$6.5 billion in recent years and we urge you to support maintaining that level once again in fiscal year 2012. Over time the purposes for which RUS loans can be used have been restricted. Since cooperatives have a wide range of capital requirements, we ask for your help in ensuring RUS loans can be used to address all of our needs – whether the loans are for supporting renewable generation, or new baseload generation, or making environmental upgrades to existing generation.

The Guaranteed Underwriter Loan Program provides another important source of co-op financing. That loan level was \$500 million in

fiscal year 2011 and should be maintained at that same level again in fiscal year 2012. In addition to investing in the electric cooperative network, the fees paid on Guaranteed Underwriter loans are a source of non-Federal funds which can then be used to fund rural economic development. As an example, the fees paid on \$500 million in loans can in turn provide \$30 million for Rural Economic Development Loans and Grants – what is known as the REDL&G program.

Rural Economic Development Loans & Grants (REDL&G)

Under the REDL&G program, USDA provides zero-interest loans to utilities (including electric co-ops), which, in turn, pass the funds through to local businesses and other groups that create jobs in rural areas. This positive cycle of business development can strengthen both the co-op and the local communities by helping stabilize populations and the co-op's customer base.

Attached to this testimony is a summary of the Rural Economic Development Loans and Grants that were approved between July of 2008 and July of 2011. As you can see, during that short period of time, 24 projects either created or saved 707 jobs in rural Kansas. We believe that

the program is a valuable tool in offsetting population flight and job losses in rural Kansas.

One example of how the REDL&G program works can be found in my hometown of Seneca, Kansas. A local employer, Koch and Company, a cabinet and door manufacturer, received a \$450,000 REDL&G loan in 2004 for a cabinet plant expansion. The project created 55 new jobs and retained 185 jobs at that time. Since then, Koch and Company has expanded twice more and in 2010 had annual revenue of \$40 million. They employ a total of 300 employees with an annual payroll that exceeds \$8 million. While about 75% of their cabinets are sold within a 600 mile radius of Seneca, their doors are shipped all over the United States and Canada.

Energy Efficiency

Rural electric cooperatives have a straightforward mission: to provide reliable electric service at the lowest cost possible. That is one reason electric cooperatives have been leaders in energy efficiency. We were created to provide affordable and reliable electricity – not to make a profit for shareholders.

Electric cooperatives across the nation, including in Kansas, have for many years provided information and advice to consumers to help them manage their energy bills. This includes programs and incentives for their member-owners to use electricity in an efficient and cost-effective manner. The wide range of assistance includes rebates for energy-efficient appliances, the replacement of compact fluorescent light bulbs, and time of day rates to encourage off-peak usage.

An energy efficiency program that has gained national attention for the cooperatives and for Kansas is the How\$mart™ program created and implemented by Midwest Energy, an electric cooperative in Hays. This program allows for “on bill” financing of energy efficiency improvements made to the customer’s home.

The process starts with an energy audit at the customer’s home. The audit determines how best the customer could improve the efficiency of their home through cost-effective energy efficiency improvements. “Cost-effective” improvements are determined by whether or not the cost of the improvements can be repaid through savings on their electric and gas bills over a specified period of time, usually ten years. Midwest Energy advances

the cost of improvements, the customer signs loan documents, and then agrees to repay Midwest. Even including the loan payment, the customer's electric and gas bills should be equal to or less than the amount they would expend for those same bills without the improvements.

One big advantage to this program is that it removes barriers that exist for low income or rental properties to make energy efficiency improvements as it requires no up-front cost. Since 2007, Midwest Energy has completed over 400 projects. Since the financing is on the utility bill and the value of the improvement conveys with the property, the cost of improvement is paid by the current owner or occupant of the house even if ownership of the home changes.

One opportunity for federal legislation is to build on the success of local cooperatives and enact the Rural Energy Savings Program Act (RESPA). Modeled in part after Midwest Energy's How\$mart™ program, RESPA would expand RUS lending authority and allow RUS participate in specific voluntary energy efficiency programs. A co-op could then create an "on-bill financing" mechanism that allows its members to borrow money for energy efficiency improvements at their homes and businesses and to pay

back those loans through their monthly electric bills. This is a co-op program with a proven track record in Kansas, and it could help bring down electric bills in other states as well.

Derivatives

Senators, as you examine important issues for electric cooperatives, I would also ask that you take note of the current difficulties being borne as a result of so-called financial reform legislation. NRECA is working with the Administration and Congress to ensure co-ops are not unduly burdened by dual Federal Energy Regulatory Commission (FERC) and Commodities Futures Trading Commission (CFTC) regulation.

NRECA CEO Glenn English testified in front of the House Agriculture Committee on July 21 on this subject. He explained that rural electric cooperatives use commercial transactions and commodity derivatives to keep costs down by reducing the commercial risks associated with electricity, capacity, and necessary electricity production inputs.

Congress recognized in the Dodd-Frank Wall Street Reform and Consumer Protection Act that elimination of the Commodity Exchange Act's (CEA)

exemption for energy transactions could lead to duplicative and potentially conflicting regulation of transactions now subject to FERC regulation.

We certainly hope that the CFTC will choose to write its rules in a manner that minimizes potential conflicts with FERC regulation. We encourage you to urge the CFTC not to impose a regulatory regime on individuals for commercial transactions involving nonfinancial energy commodities.

We believe in writing the next Farm Bill, there could be an opportunity through the CEA to address any duplicative and burdensome CFTC regulations that end-users face as the Dodd-Frank financial reform legislation is implemented. This is an appropriate means of ensuring that CFTC recognizes Congressional intent with regard to the end-user exemption.

Conclusion

As a locally based electric utility in Northeast Kansas, Nemaha-Marshall's goal is "providing the best possible electric service at the lowest

possible price” to our members. Just as importantly, we are also here to support our communities and the people who live in them.

Thank you for your continued support for RUS electric loans, the Guaranteed Underwriter Loan Program, and the Rural Economic Development Loan and Grant Program. These programs have been vital for providing affordable co-op financing, and in helping co-ops grow jobs in our communities. There are also new opportunities in energy efficiency, and we look forward to working with you to develop a locally-driven Rural Energy Savings Program that can be delivered by co-ops nationwide. Finally, your continued work to make sure that derivatives regulation does not unduly burden electric cooperatives is very much appreciated.

Thank you again for this opportunity to share my experiences. I would be happy to address any questions you may have.



Rural Economic Development Loans/Grants July 2008 - July 2011

A/O	Borrower Name	Ultimate Recipient <small>(business receiving pass through loan with RED-L or entity receiving initial loan from RLF if a RED-G)</small>	TOA	Status Amount	Date Obligation	Jobs Created	Jobs Saved	Total Jobs	Business Assisted
Hays	MIDWEST ENERGY INC	Calm Creek Carriers, LLC	RED LOANS (ELECTRIC)	\$740,000	3/5/2009	20	0	20	1
Hays	MIDWEST ENERGY INC	McCarty Farms	RED LOANS (ELECTRIC)	\$740,000	7/13/2011	10	0	10	0
Hays	MIDWEST ENERGY INC	Oakley Hospitality - hotel in Oakley	RED LOANS (ELECTRIC)	\$740,000	5/21/2009	20	0	20	1
Hays	PRAIRIE LAND ELECTRIC COOP, INC	Cloud Co. Health Center	RED LOANS (ELECTRIC)	\$300,000	2/23/2011	3	2	5	1
Hays	ROLLING HILLS ELECTRIC COOP, INC	CTI - Concordia JD dealership	RED LOANS (ELECTRIC)	\$740,000	9/22/2010	6	35	41	1
Hays	ROLLING HILLS ELECTRIC COOP, INC	Carrico JD - Concordia	RED LOANS (ELECTRIC)	\$740,000	7/13/2011	12	20	32	1
Hays	ROLLING HILLS ELECTRIC COOP, INC	City of Concordia - Industrial Park utility extension	RED GRANTS (ELECTRIC)	\$300,000	9/21/2010	22	46	68	1
Hays	ROLLING HILLS ELECTRIC COOP, INC	City of Concordia - Industrial Park utility extension	RED LOANS (ELECTRIC)	\$740,000	9/27/2010				
Hays	WHEATLAND ELECTRIC	Farrar Corp. - Norwich	RED LOANS (ELECTRIC)	\$740,000	3/5/2009	15	130	145	1
Hays	RURAL TELEPHONE SERVICE CO INC.	Natoma Corporation	RED LOANS (TELEPHONE)	\$740,000	5/21/2009	6	0	6	1
Hays	RURAL TELEPHONE SERVICE CO INC.	Norton Hospital (Health Clinic in Norton County)	RED LOANS (TELEPHONE)	\$740,000	6/7/2010	6	131	137	1
Hays	RURAL TELEPHONE SERVICE CO INC.	Norton Hospital (Health Clinic in Norton County)	RED GRANTS (TELEPHONE)	\$300,000	6/3/2010				
Hays	THEGOLDEN BELT	KM Hospitality (Hotel in Ellis, KS)	RED LOANS (TEL)	\$740,000	9/30/2009	13	0	13	1
Hays	MIDWEST ENERGY INC	City of Wakeeney (fire pumper truck)	RED GRANTS (ELECTRIC)	\$171,156	9/30/2009	0	0	0	1
Hays Total				\$8,471,156				497	11
Iola	HEARTLAND ELEC COOP	Crawford County Hospital	RED LOANS (ELECTRIC)	\$600,000	5/21/2009	19	0	19	1
Iola	LYON-COFFEY ELECT	Schmidt Construction - Olpe, KS	RED LOANS (ELECTRIC)	\$180,000	5/23/2011	3	0	3	1
Iola	TWIN VALLEY ELECTRIC COOPERATIVE, INC.	City of Parsons (Tolken Industrial Park)	RED LOANS (ELECTRIC)	\$740,000	3/5/2009	70	0	70	1
Iola	TWIN VALLEY ELECTRIC COOPERATIVE, INC.	City of Parsons (Tolken Industrial Park)	RED GRANTS (ELECTRIC)	\$300,000	3/5/2009		0		
Iola Total				\$1,820,000				92	3
Manhattan	BLUESTEM ELECTRIC COOPERATIVE INC	Kansas Hardwood - Belvue	RED LOANS (ELECTRIC)	\$192,000	2/23/2011	8	0	8	1
Manhattan	LEAVEN-JEFF COOP	Oskaloosa Medical Center (d/b/a Holland Eye Clinic)	RED LOANS (ELECTRIC)	\$307,200	8/14/2008	5	0	5	1
Manhattan	BLUE VALLEY TELE-COMMUNICATIONS, INC.	CIT (Community Improvement Team)	RED LOANS (TEL)	\$740,000	2/22/2011	12	0	12	3
Manhattan Total				\$1,239,200				25	5
Newton	ARK VALLEY ELECTRIC COOPERATIVE ASSN	Gilmore Solutions (in Sterling, KS)	RED LOANS (ELECTRIC)	\$192,000	7/6/2010	2	5	7	1
Newton	BUTLER RURAL ELECTRIC COOP ASSN	Spur Ridge Veterinary Hospital	RED LOANS (ELECTRIC)	\$354,400	7/20/2009	4	4	8	1
Newton	SEDGWICK COUNTY ELECTRIC COOP	Martin Machine	RED LOANS (ELECTRIC)	\$185,000	5/21/2009	6	35	41	1
Newton	SOUTH CENTRAL TELEPHONE ASSOC.	BTI - Bucklin (Pratt JD dealer facility)	RED LOANS (TEL)	\$740,000	7/6/2010	0	34	34	1
Newton	KANOKLA TELEPHONE ASSOCIATION, INC.	City of Caldwell - firetruck	RED GRANTS (TEL)	\$177,200	6/3/2010	0	3	3	1
Newton Total				\$1,648,600				93	5
Total				\$13,178,956				707	24



Summary

Total Jobs Created/Saved	707
Total Businesses Assisted	24
\$ in Loan Funds	\$11,930,600
\$ in Grant Funds	\$1,248,356
Grants Establish RLFs that can assist other businesses	