

Testimony of

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Farm Bill Policy Proposals Relating to  
Farm and Rural Energy Issues and Rural Development

before the

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## Introduction

Mr. Chairman and Members of the Committee:

My name is Glenn English, and I am the Chief Executive Officer of the National Rural Electric Cooperative Association (NRECA). As a former member of the House Agriculture Committee, I fully appreciate your responsibility to oversee the programs of the Department of Agriculture. I am honored to be invited to add my perspective here today on a variety of programs involving the Department of Agriculture and challenges facing electric cooperatives.

## Background on Electric Cooperatives

NRECA is the national service organization representing the interests of cooperative electric utilities and their consumers. In addition to advocating consensus views on legislative and regulatory issues, NRECA provides health care, pension, financial investment and many other programs for its members.

Electric cooperatives are not-for-profit, private businesses governed by their consumers (known as "member-owners"). Today, 930 electric cooperatives serve 40 million consumers in 47 states. Cooperatives are a unique sector of the electric utility industry, serving an average of only 7 consumers per mile compared with the 35 customers per mile served by investor-owned utilities (IOUs) and 47 customers per mile served by municipal utilities. To put this in greater perspective, electric cooperatives serve only 12% of the population -- but maintain 42% of the

nation's electricity distribution lines covering three quarters of the land mass. Cooperative revenue per mile averages only \$10,565, while it is more than six times higher for investor-owned utilities, at \$62,665 and higher still for municipal utilities, at \$86,302 per mile. As a result, cooperatives have far less dollars than the other electricity sectors to support much more of the distribution infrastructure. In addition, electric cooperative households generally have less income than the rest of the nation.

The electric utility industry has an obligation to meet the future needs of our consumers, and as cooperatives we take that responsibility very seriously. NRECA is also committed to meeting the twin challenges of strengthening our nation's energy security and protecting our natural environment. NRECA strongly supports the responsible development of cost effective renewable resources. The use of those resources can achieve all these important goals and boost rural economies.

#### Affordable Private Sector Financing for Cooperatives

We estimate that electric cooperatives need to invest \$42 billion in infrastructure upgrades, transmission and generation capacity to meet the increasing demand for electricity over the next 10 years. Over the past five years, approximately 60 percent of electric cooperative financing has come from private sources, while the other 40 percent is provided through the Rural Utilities Service loan program.

One private sector cooperative lender, the National Rural Utilities Cooperative Finance Corporation (CFC) is partnering with Farmer Mac to help obtain the necessary financing. In keeping with its public policy mission, Farmer Mac is providing a secondary market for qualified electric cooperative loans through the purchase of securities backed by electric cooperative loans made by CFC. This public-private partnership has increased availability of competitively priced private capital to electric cooperatives thus creating growth and opportunity in rural America.

Yet, rural communities are not realizing the full economic benefits that Farmer Mac can provide. The Committee can strengthen this partnership by authorizing Farmer Mac to treat loans to electric cooperatives as qualified program loans in the same manner as other rural and agricultural loans. This program purpose treatment would lower the cost of capital for our electric cooperative members and help ensure that rural families will have access to affordable and reliable electric service well into the future.

#### REDLG: A Partnership for Rural America and a Boost to Renewable Energy

Electric cooperatives meet community needs other than electrification through their economic and community development efforts, facilitated largely through USDA's Rural Economic Development Loan and Grant (REDLG) program. This highly successful program should be expanded to help cooperatives bring affordable, reliable renewable resources to the communities we serve.

Through REDLG, electric cooperatives work in partnership with business and local leaders to

provide zero-interest loans for many types of community and economic development projects. According to USDA, the REDLG program has provided more than \$350 million in zero-interest loans or grants to help finance these projects, and has leveraged well over \$2 billion in private funds to invest in rural communities while creating or retaining nearly 37,000 jobs. The importance of REDLG for these efforts cannot be overstated.

Yet our members face two major challenges in fully utilizing this program. Electric cooperatives fund the REDLG program by making advance payments on their RUS loans, and through fees paid by our private sector cooperative lender. Nonetheless, these funds - over \$244 million in the last two years -- are being redirected to other USDA programs. In addition, USDA has told certain electric cooperatives they are no longer eligible to help their communities through the REDLG program.

These challenges have stopped many qualified rural economic and community development projects in their tracks. The investment that electric cooperatives have made in the REDLG is lost, and our members are denied the opportunity to help their local communities. It is critical that Congress stop this redirection of REDLG funds away from community and economic development projects, and we would ask this committee to ensure that all electric cooperatives are eligible to participate in REDLG.

The flexible REDLG program can also play a key role in advancing our nation's energy security and climate change goals. Electric cooperatives already have several biomass projects on line, producing renewable power and providing a positive solution to our farmers' environmental and water quality issues. However, these projects are costly and difficult to finance. Whereas the REDLG program has been used in the past to help finance both ethanol and soy-diesel projects, biomass projects owned by electric cooperatives are presently not eligible for funding. We ask the Committee to authorize USDA to provide REDLG financing - with an emphasis on grants -- for these biomass projects owned by not-for-profit electric cooperatives.

Finally, as the Committee moves forward with the Farm Bill, we believe that the USDA Guaranteed Underwriter needs to be reauthorized. This program provides private funding for REDLG through fees paid by not-for-profit cooperative lenders - at no cost to the taxpayers.

#### Electric Cooperatives: Leaders in Affordable Renewable Energy

Electric cooperatives are developing innovative programs to meet our consumers' power needs. Dairyland Power Cooperative (DPC), in La Crosse, Wisconsin, serves part of the Chairman's home state of Iowa. DPC is expanding its Evergreen Renewable Energy Program<sup>SM</sup> and is on track to reach 10 percent renewable generation by 2015. Dairyland has 17 MW of wind generation, 10.4 MW of landfill gas-to-energy plant, and 22 MW of hydroelectric power. In addition, Dairyland's animal waste-to-energy program utilizes manure from dairy and swine farms within the DPC system in anaerobic digesters to produce methane for conversion to electricity. Currently 3 MW of "cow power" are online and DPC has plans to bring up to 25 MW of digester plants online over five years.

In the Ranking Member's home state of Georgia, cooperatives have developed a program to acquire the renewable energy they sell to their member-owners. Twenty-eight cooperate in Green Power EMC-an entity that exists to provide renewable energy to its member

cooperatives for sale to approximately 1.2 million cooperative households in Georgia.

Electric cooperatives strongly support and encourage the 25x'25 coalition's goal of producing 25 percent of our nation's energy supply from renewable sources by 2025. The Senate is currently considering a resolution in support of the 25x'25 goals (S.Con.Res. 3).

As the sole electric utility representative on the 25x'25 steering committee, I worked closely with representatives of the farm, ranch and forestry communities to develop a roadmap to achieving this goal --the 25x'25 Action Plan: Charting America's Energy Future. The Action Plan provides a strong policy framework to increase national energy security, foster rural economic opportunity, and benefit the environment -- without additional federal mandates. Rural electric cooperatives will play an important role by providing safe, reliable electric power at the lowest possible cost to the fledgling rural businesses that are expected to supply one-quarter of our nation's energy. As an example of the potential for this partnership, electric cooperatives provide electricity to approximately 122 current or planned ethanol plants and 38 current or planned biodiesel plants.

#### The Clean Renewable Energy Bond Program

Electric cooperatives are playing an important role in increasing renewable electricity production. But without tax incentives comparable to those provided to for-profit electricity generators, renewable generation is unaffordable for most electric cooperatives' member-owners. Electric cooperatives cannot utilize the PTC or solar investment tax credits because they are not-for-profit and therefore have no federal tax liability from which to deduct the tax credit. However, electric cooperatives have proven that given the necessary incentives, they will tap available renewable resources. The Energy Policy Act of 2005 established a groundbreaking incentive tailored for electric cooperatives and municipal utilities-- the Clean Renewable Energy Bond (CREB). In essence, a clean renewable energy bond provides electric cooperatives and public power systems with interest-free loans for financing renewable energy generation.

The CREB program has proven to be as successful as the PTC in getting new renewable resources in the ground. In its first year, the CREB program funded 78 electric cooperative projects and was well balanced across many technologies, including wind, biomass, landfill gas, hydropower and solar. The CREB program will expire January 1, 2009, along with the PTC. Electric cooperatives are urging Congress to extend and expand the CREB program. Members of this Committee have been instrumental in supporting and creating the CREBs program.

#### Transmission: Key to Expanding Affordable, Reliable Renewable Electricity

The successful CREB program is a model Congress should adapt to create transmission needed for renewable generation. A significant challenge facing renewable energy is transmission adequacy. Most renewable generation resources are located far from population centers where there is little demand for electricity and little transmission infrastructure. If large quantities of wind generation are to be built in those regions, it will be necessary to also site, fund and

construct large amounts of additional transmission capacity to move the power to urban centers.

To address the funding issues, NRECA is advocating for renewable transmission bonds. The Federal Government should authorize the issuance of tax-exempt bonds to fund the construction of transmission facilities or expansion of existing transmission facilities where such construction or expansion is required to facilitate the interconnection of renewable generation to the grid and/or the delivery of renewable resources to consumers.

Congress should remove current restrictions on the ability of private entities to benefit from tax-exempt financed transmission infrastructure, where such construction or expansion is needed to facilitate the interconnection of renewable generators or to deliver renewable energy to consumers. Under the proposal, loans would also be permitted from governmental entities that are eligible to issue tax-exempt bonds to any private entity seeking to finance eligible transmission infrastructure.

### The Importance of Rural Telecommunications

As cooperatives work to achieve many of the goals I've discussed with you today, we realize that technology will be the key to success in many areas. Advanced telecommunications will be an integral part of the energy systems of the future. Already, cooperatives are industry leaders in demand response and automated meter reading. These applications enhance metering and load management systems with telecommunications capabilities. Cooperatives can see load fluctuations and manage outages in real time. Cooperatives use this information to make short and long term decisions about load growth and generation planning. The system efficiencies will only grow in the future as advanced or "smart metering" systems become more commonplace and expand to include the consumer's home and appliances.

With our partner organization, the National Rural Telecommunications Cooperative (NRTC), we are working to make sure that rural consumers have access to advanced telecommunications services in their homes and businesses. Satellite technology provides an alternative where cable modem and DSL providers do not serve. Many rural electric providers offer WildBlue Communications' service which has helped stimulate economic development and provide vital services.

In Wisconsin, Richland Electric Cooperative helped a Madison-based publisher of board games relocate to a rural town where he could operate his company using WildBlue. Ouachita Electric Cooperative in Camden, Arkansas rushed WildBlue equipment to the Gulf region following Hurricane Katrina. Linemen in the area used it to set up a communications center and for a time, satellite broadband was their only link to the world. Earlier this year, when a tornado ripped through Dumas, Arkansas, Ouachita again offered WildBlue equipment to set up a mobile communications center for local and state police.

WildBlue now has two satellites in service, making it possible to deliver service to as many as 750,000 homes and businesses in rural America. If the Committee pursues a rural broadband program in the pending Farm Bill, cooperatives would urge that the program be technology

neutral and allow satellite broadband to serve rural areas.

### Conclusion

We appreciate the continued leadership of the Committee and the United States Department of Agriculture on electric cooperative issues. This Committee and the Department of Agriculture have worked together for many years to anticipate and meet the needs of our rural citizens and electric cooperatives. We look forward to working with you in the future.

I would like to thank the Committee for the opportunity to testify here today. I look forward to answering any questions you may have.