Testimony of the Honorable Glenn English, CEO
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Committee on Agriculture

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It is an honor to appear before the Senate Agriculture Committee again, and I thank you for this opportunity to share rural electric co-ops' perspective on the issue of rural development and energy – two subjects that have, for rural electric cooperatives gone hand-in-hand for over 75 years.

The National Rural Electric Cooperative Association (NRECA) is the not-for-profit, national service organization representing over 900 not-for-profit, member-owned, rural electric cooperative systems, which serve 42 million customers in 47 states. I should also note that for the states represented by the Senators on this committee alone, NRECA has 21.6 million members and 494 electric co-ops. I know that this committee cares deeply about the fate of rural America, and I thank you for your strong support of the idea that someone's standard of living should not be dictated by his or her zip code.

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. Cooperatives serve approximately 18 million businesses, homes, farms, schools and other establishments in 2,500 of the nation's 3,141 counties. Cooperatives still average just seven customers per mile of electrical distribution line, by far the lowest density in the industry. These low population densities, the challenge of traversing vast, remote stretches of often rugged topography, and the increasing volatility in the electric marketplace pose a daily challenge to our mission: to provide a stable, reliable supply of affordable power to our members—including your constituents. That challenge is critical when you consider that the average household income in the service territories of most of our member co-ops lags the national average income by over 14%.

Clearly, bringing electricity to America's countryside has never been easy, but now rural electric cooperatives must deal with being a part of an industry in transition. The electric utility industry as a whole faces a carbon constrained environment at a time when cooperative electricity retail growth is twice the rate of total industry in spite of our heavy investment in demand response technology and efficiency. A USDA study, conducted as a requirement of the Food and Energy Security Act of 2007, found that, "Due to current and projected growth, cooperatives will need to double generation capacity by 2020." It's clear we need new generation and it needs to be as clean as practicable, but we are also dealing with multiple environmental regulatory hurdles, from the Clean Air Act to the Clean Water Act, for existing coal generation and barriers to the construction of transmission that is especially needed to support new renewable resources. Meanwhile, electric cooperatives, must like the rest of the industry, determine how to deliver reliable and affordable electricity in the face of the Massachusetts v. EPA decision, which EPA is using to regulate carbon under the Clean Air Act. Whether from Congress, the bureaucracy or the courts, electric co-ops have to figure out how to produce and deliver electricity under more difficult conditions.

A year ago, we asked an expert group to evaluate for us the challenges to building enough transmission to support the development of a robust renewable energy generation source to supply needed electricity for the near future. The study laid out the facts in stark terms: "Expanding the nation's transmission infrastructure to support 20% wind energy share may require the construction of 15,000 miles of new extra high-voltage transmission lines involving 30 states in the Easter Interconnection alone." To put this in context, the cost of

these lines reach up to $5 million dollars per mile. Reaching any kind of scale in the generation of renewables is unlikely unless we face this issue head on, and regardless of what mandates are being considered or passed at the state and federal levels, renewable generation is going to hit a wall consisting of insurmountable new costs or the inability to deliver power where needed.

Another barrier is emerging in the West, where the Whitebark Pine tree, which is being attacked by pine beetles, is now being reviewed by the U.S. Fish and Wildlife Service for possible protection under the Endangered Species Act. If this occurs, it will make the nearly impossible management of our transmission right of ways across federal lands even more difficult.

Some in Congress will suggest this is because electric co-ops are overly reliant on coal. The truth is that rural electric cooperatives are beholden to our member-owners who need affordable electricity, not any particular source of fuel. In fact, in the late 1970s and early 1980s, when electric cooperatives were last operating in a base load construction cycle, the government helped make coal our only viable option for power. In 1978, the Power Plant and Industrial Fuel Use Act, which prohibited the use of natural gas and petroleum in new electric power plants was signed into law. Then in 1979, an accident occurred at the Three Mile Island nuclear power plant near Middletown, Pennsylvania. Together, these events left electric cooperatives with a single option for keeping the lights on: coal. As the EPA and Congress have looked to restrict CO2 production this has put rural electric cooperatives and their member-owners at a real disadvantage which will raise the cost of electricity in the communities we serve.

Meanwhile, biomass, especially in the Southeast, has been touted as a way to meet electricity needs. Yet, the new EPA position not to exempt biomass from greenhouse gas control requirements (yet to be finalized) has created uncertainty about the viability of biomass for generation.

The good news is that rural electric cooperatives are constantly pursuing innovative solutions. Electric co-ops are industry leaders in energy efficiency and demand side management. Our members have worked for years on clean coal technologies. Where possible, we use renewable resources– just this year one of our generation and transmission cooperatives, Tri-State Generation and Transmission Association, began construction on a 500,000 panel solar photovoltaic power plant in northeastern New Mexico; among the largest facility of its kind in the world. And, Oglethorpe Power Corporation in Georgia is participating in what will be one of the first nuclear plants built in 30 years. The key for us, for our consumer-owners, for the standard of living in households across rural America, will be whether or not electric cooperatives are provided access to RUS lending for baseload generation, a fully staffed RUS to deliver these loans in a timely manner, new opportunities for energy efficiency loans and continued loan guarantee authority for electric co-op lenders.

In short, rural electric cooperatives must build more baseload generation, deal with severe restrictions on current base load generation and ensure new generation is as clean as possible. Meanwhile, our number one objective is to keep electricity bills low for our consumer-owners who populate rural America. It is critical this committee understands that without the financing options from the Rural Utilities Service (RUS) and our cooperative lenders, it will be impossible to keep electric bills affordable and ensure the lights stay on. Electric cooperatives are largely not eligible for the rich tax subsidies given to the other industry sectors that do not have to be reviewed every year by Congress. RUS is a highly accountable, cost effective program that merits strong Congressional support.

RUS BASELOAD GENERATION

In 2007, a administrative moratorium was effectively placed on RUS lending for baseload generation through an internal budget process known as "apportionment". That means rural electric cooperatives can no longer borrow from RUS to construct power plants that are designed to be operated twenty four hours a day, seven

days a week. These are the power plants that ensure the light comes on when you flip a switch in your home. Generally speaking, baseload plants are fueled by coal, nuclear and increasingly natural gas. And, the cost of building generation is only going up – in fact our own survey projects that we will need about $44 billion over the next 10 years for new generation. Without this lending authority, it has become more difficult for electric cooperatives to meet new electricity demand and replace older coal-fired plants that are nearing the end of their productive life cycle.

Most of this testimony is focused on maintaining affordable energy bills for rural households, but if electric co-ops cannot build new baseload generation, the reliability of the national grid is in jeopardy and brownouts are more probable according to USDA's aforementioned analysis of the issue in 2008. Rural electric cooperatives brought lights and household appliances and countless other modern conveniences to rural America over 75 years ago – we must not take for granted what took so much effort to guarantee.

During the debate on the 2008 farm bill, this committee passed, as part of its farm bill, legislation that would have addressed the RUS baseload generation issue. Though the fix did not make it through conference, I would like to thank those Senators who were on the committee at that time for working so hard to address this issue in the past. I look forward to working with you to restore this critical lending authority in the future.

RUS STAFFING ISSUES

Rural electric cooperatives have worked well with the RUS over the years, but an all too common complaint from our members is the slowness of processing and closing loans. This year, we are hearing the process is worse than usual, and there is deep concern that RUS will simply not be able to process loan applications that would otherwise have been completed due to workload issues. To put RUS staffing levels in perspective, in 1950 there were 1,152 employees in the Electric Program and they made $376 million in loans that year. Today, staffing for the Electric Program is authorized at 119 employees and they are approving $7.1 billion in loans. One tenth the employees expected to deliver 20 times the loan volume. If RUS is to aid rural electric cooperatives in keeping electricity in rural areas affordable, the agency must be equipped to deliver.

NEW ENERGY EFFICIENCY OPPORTUNITIES

The not-for-profit business model encourages cooperatives to use all cost-effective methods to keep electricity affordable for the consumers who own the cooperatives. Rising costs of new generation resources mean that efficiency is often the "least-cost" generation resource. A commitment to increase the quality of life for consumers makes efficiency investments an important priority. In fact, co-ops' engagement with energy efficiency has resulted in the following achievements:

- Cooperatives serve only 12 percent of the nation's consumers but are responsible for nearly 25 percent of the nation's residential peak load management capacity.
- 96 percent of cooperatives operate an efficiency program.
- 70 percent of co-ops offer financial incentives to promote greater efficiency.

Currently, rural electric cooperatives can borrow from the existing RUS FFB loan program for energy efficiency at a loan rate of Treasury rate plus one-eighth of 1 percent. Many cooperatives provide efficiency assistance in the form of rebates and, in some cases, financing for consumers. Yet, a barrier for electric cooperatives remains in that they have limited financial resources available to provide these services on a large scale. The cost of the current loan program would make the interest rates that the cooperatives would have to charge to consumers a major barrier for many of the member-owners that cooperatives serve.

Accordingly, NRECA has been working with several Senators on this committee to develop the Rural Energy Savings Program Act (RESPA), S. 3102, and we thank the seven Senators on this committee who have cosponsored this bill. This proposal utilizes the current RUS loan procedures, instead of creating a whole new federal program from scratch. RESPA is primarily a loan program in which the electric cooperatives assume 100 percent of the risk of providing efficiency loans to consumers and for repaying the federal government. Passing this bill is another way Congress can help equip electric co-ops to find innovative solutions to our many challenges.

CO-OP LENDER LOAN GUARANTEE AUTHORITY

In addition to RUS lending, rural electric cooperatives receive financing from two private co-op lenders, the National Rural Utilities Cooperative Finance Corporation (CFC) and CoBank. Cooperatives need low cost financing to keep electricity bills low for our consumer-owners, and one important program that achieves that goal is the Guaranteed Underwriter Program. Thanks to this committee, this program can provide up to $1 billion in additional affordable financing to rural electric cooperatives through their co-op lenders. The program also enhances electric cooperatives' ability to play a role in rural development as it generates funds for USDA's Rural Economic Development Loan and Grant (REDL&G) program.

Under the REDL&G program, USDA provides zero interest loans to local utilities that they pass through to local businesses for projects that will create and retain employment in rural areas. Additionally, USDA provides grant funds to local utility organizations which use the funding to establish revolving loan funds. Loans are made from the revolving loan fund for projects that will create or retain rural jobs. By increasing the availability of financing for rural electric cooperatives and putting money into REDL&G, the Guaranteed Underwriter Program truly kills two birds with one stone and deserves reauthorization in the next farm bill.

CONCLUSION

Again, thank you for the opportunity to testify at today's hearing on rural development. Rural electric cooperatives look forward to continuing to play a strong role in the success of our rural communities, and NRECA looks forward to working with the members of this Committee towards that goal.

Thank you.