

Testimony of Bruce Graham

Indiana Statewide Association of Rural Electric Cooperatives, Inc.

Before the

Senate Committee on Agriculture, Nutrition and Forestry

July 14, 2011

Madame Chairwoman Stabenow, Ranking Member Roberts, Senator Lugar and Members of the Committee, I thank you for inviting me to provide the views of the electric cooperatives on the Rural Energy Savings Program Act (RESPA), a cost-effective program that will save energy and create jobs in rural America. It is an honor to appear before this Committee.

I am the Chief Executive Officer of the Indiana Statewide Association of Rural Electric Cooperatives, which was the first statewide cooperative association of its kind. Indiana's electric cooperatives provide safe and affordable energy to more than 500,000 homes, farms and businesses, while we continue to lead the way in making energy efficiency manageable for our consumer-members across the state.

Nationwide, there are 930 not-for-profit, member-owned, rural electric cooperative systems which serve 42 million customers in 47 states. The National Rural Electric Cooperative Association (NRECA), our not-for-profit national service organization, estimates that cooperatives own and maintain 2.5 million miles or 42 percent of the nation's electric distribution lines covering 3 quarters of the nation's landmass. Cooperatives serve approximately 18 million businesses, 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. Given the low population densities and vast rural areas, we face many challenges in our mission to provide a stable, reliable supply of affordable power to our consumers that include constituents represented on this Committee.

Rural electric cooperatives have far less revenue than the other electricity sectors to support a greater share of the distribution infrastructure. The challenge of providing affordable electricity is critical when you consider that the average income for households in co-op service territories is 14 percent below the national average.

One major challenge facing electric cooperatives is how to help their consumers invest in energy efficiency improvements for their homes and businesses so that they can save on their energy bills, while also helping cooperatives avoid the long-term costs and environmental impacts of building new electric infrastructure.

## *The Need for a New RUS Program Dedicated to Energy Efficiency Savings*

Electric cooperatives came about during the economic hardship of the Great Depression 75 years ago, when the federal government established the Rural Electrification Act (REA), a self-help loan program for the purpose of providing electricity, infrastructure and improving the lives of a determined rural population. Now called the Rural Utilities Service (RUS), Congress has continued to authorize these loans to not-for-profit utilities to build and maintain a highly reliable electricity infrastructure that includes generation facilities, transmission and distribution.

Although efficiency investments have always been part of the culture of the electric cooperatives and part of the RUS mission, the authorization of efficiency loan programs under Section 6101 (“Energy Efficiency Programs” in the 2008 Farm Bill) recognized that efficiency investments are now a key component of providing electricity services to consumer-members of RUS borrowers. However, the current RUS loan program is usually oversubscribed just to meet basic infrastructure needs of RUS electric utility borrowers. Further, the RUS program provides loans for our infrastructure that provides electricity to our consumers. We serve, but do not own, the homes and businesses that would receive energy efficiency upgrades at the request of the consumer-member.

Electric cooperatives across the nation, including many in Indiana, have for years encouraged energy efficiency through rebates to consumers. Some co-ops across the country provide financing for consumers as well. Other types of assistance range from replacing compact fluorescent light bulbs, to more full-scale home efficiency upgrade assistance as provided by Hoosier Energy in Indiana. Hoosier’s current efficiency program, born out of stimulus funding, was so successful that they have received a second grant to extend the life of the program.

Some co-ops are able to provide efficiency services within their own programs, but up-front costs for consumers remain a barrier, even if the costs will be recovered through efficiency savings in the long run, or through tax credits or rebates. With limited financial resources at their disposal, it would be difficult for many rural electric cooperatives to make these energy efficiency loans widely available to its consumers, and a part of our continuous utility service.

The Rural Energy Savings Program was designed to address these barriers while minimizing the impact on the federal budget. The current Senate proposals utilize existing RUS loan procedures instead of creating a new federal infrastructure. The RESPA loan program allows cooperatives to assume 100 percent of the risk of providing efficiency loans to consumers and for repaying the federal government.

The co-ops stand ready and willing to go out front and shoulder the costs of these energy efficiency improvements. The electric cooperatives already have the billing systems in place to allow the consumer to repay the loan on their electric bill. Cooperatives have created several centralized data and billing operations that will allow them to track the

energy usage before and after the installation of energy efficiency upgrades by consumers.

This program will be cost-effective because RESPA has a stringent cost-benefit requirement that any investment in efficiency retrofits must be able to pay for itself in energy savings in ten years or less. This precludes efficiency technologies that are not cost effective within a ten year period. Because cooperatives are on the hook for paying back the federal loan, there is an enormous incentive to make sure that the program works, that the savings promised occur, and that the consumer-owner gets the value promised. The cost-benefit test means that not every new trend in efficiency technology on the market will be used.

The program is focused only on upgrades that are a structural part of a home or business that is in the cooperative service territory. This program is not targeted at such things as energy efficient appliances, but rather on cost-effective improvements to the “building envelope,” such as: HVAC systems, heating boilers, windows, geothermal systems and high-rated insulation. This is because a significant goal of the program is to reduce the need for expensive investment in new electric infrastructure, while supporting the obvious job-creation for contractors and equipment manufacturers.

I must note that this proposed legislation targets “energy” savings, not just electricity savings. As a result, it is possible that “electricity” usage and consumer bills will go up but overall energy usage and bills will go down significantly more. An example would be if a cooperative decides to include in their program the replacement of old inefficient fossil fuel furnaces with high efficiency geothermal systems or heat pumps.

Importantly, The Rural Energy Savings Program Act also has the potential to create jobs in rural America for energy auditors, contractors, installation crews, and thousands of jobs to manufacture the new windows and doors, insulation, heating and cooling systems and other energy saving building improvements.

### ***Electric Co-ops are Committed to Energy Efficiency***

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.

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.

### ***A New Proposed RUS Lending Program Will Boost Co-ops' Efficiency Efforts***

Under this proposed legislation, the RUS program, under the U.S. Department of Agriculture (USDA) will administer the loans at the heart of RESPA. Under current proposals, RUS will be able to issue zero interest loans to individual co-ops or state-based groups of co-ops to fund low-interest (no more than three percent) loans to consumers and businesses. A co-op borrower can also tap a "jump-start" loan of no more than 4 percent of the loan amount to cover initial costs of providing service to the first consumers until the cooperative receives loan funds. RUS will use its existing procedures to approve loans and advance funds. In accordance with current practice in RUS electric programs, no loan funds will be advanced on approved loans until the co-op borrower submits documentation of work completed for the approved purposes of this program.

Every RESPA dollar loaned by RUS to a cooperative will be repaid within ten years after the cooperative re-lends the funds to the consumer. There is zero risk to the federal government for consumers' repayment because the co-op will absorb the risks of the payment of consumer loans. Further, the participating co-op will have to expend its own funds to set up and manage the program in the same way cooperatives outlay funds to pay for the costs of adding new generation.

### ***Co-ops and Consumers Will Work Together to Use RESPA Funds Wisely***

It should be noted that rural electric cooperatives have an extraordinary track record of positive payment under the RUS electric loan program, and look forward to continuing this trend under RESPA.

The cooperative applicant will specify the efficiency measures it intends to implement and the expected savings for consumers. When a RUS loan is approved, the co-op, in turn, will provide low-interest micro-loans to consumer residences or businesses if an energy audit indicates potential for significant energy savings.

Consumer loans would cover sealing, insulation, HVAC systems, boilers, roofs, windows, and other improvements that co-ops can demonstrate will produce sufficient savings. Consumer loan amounts from the co-op may only be used to make energy efficiency improvements to fixtures that convey with the house or business dwelling. Loans may not be used for appliances that do not convey with the structure, such as refrigerators or window AC units.

Participating consumers will repay the co-op for the installation and material costs through an extra charge on their utility bills within no more than ten years. The energy savings from the upgrade will cover most, if not all, of the cost of the loan. After the loan is repaid, consumers will continue to save on energy bills, potentially hundreds of dollars annually.

### ***Ensuring a Culture of Accountability***

As part of standard RUS procedure, every RESPA loan recipient will annually provide to RUS:

- Evidence of no self-dealing.
- Review of program effectiveness as defined by measurement and verification results.
- Efficiency contractor qualifications.

Funds should be provided for a program-wide measurement and verification system to track quality control and savings for the ten-year loan period. A training program should be included to provide utility auditors with information about how to implement the measurement and verification of savings, how to establish contractual relations with efficiency upgrade contractors, and how to assist consumers receiving efficiency upgrades.

### ***Pilot Programs Will Ensure Quick Start and Strong Program***

The first cooperatives applying for loans are to be considered “pilot” projects to allow more rapid internal RUS movement as well as to establish what works and what does not work.

### ***Conclusion***

Again, thank you for the opportunity to testify at today’s hearing. The electric cooperative industry faces many challenges, including developing a viable way to provide large-scale consumer access to efficiency savings. However, the cooperative business model and the public-private partnership with RUS make cooperatives well-equipped to find innovative solutions. We look forward to working with members of this Committee on this program to promote energy efficiency in Rural America.