UNITED STATES DEPARTMENT OF AGRICULTURE
RURAL DEVELOPMENT

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BEFORE THE HOUSE AGRICULTURE SUBCOMMITTEE ON
CONSERVATION, CREDIT, ENERGY, AND RESEARCH

MAY 12, 2010

Mr. Chairman, Ranking Member Goodlatte, and Members of the Committee, thank you for inviting me to discuss energy efficiency solutions through the United States Department of Agriculture Rural Development Electric Program administered by the Rural Utilities Service.

The Rural Utilities Service (RUS), one of three agencies within USDA's Rural Development Mission Area, assists rural communities in providing essential electric, telecommunications, and water infrastructure. Today's RUS Electric Program is the successor to the Rural Electrification Administration, established in 1935. The RUS Electric Program portfolio has over 650 borrowers with an outstanding balance of over $42 billion, it has performed in exemplary fashion, with a delinquency rate of less than one half of one percent. RUS loan funds may be used to finance the construction

and operation of generating plants, electric transmission and distribution lines or systems for furnishing or improving electric service. The RUS is also authorized to make loans to implement demand side management and energy conservation programs, both on-grid and off-grid.

Section 6101 of the 2008 Farm Bill amended Sections 2 and 4 of the Rural Electrification Act to explicitly authorize loans to electric borrowers to implement energy efficiency programs. These amendments codified a long-standing USDA policy. USDA now is developing regulations to implement an effective energy efficiency program. Our goal is to provide borrowers an opportunity to submit loans for energy efficiency programs, and the new regulations now under development will establish the rules that apply to this type of investment.

RUS also has decades of experience in funding energy efficiency. Our borrowers have had an option to offer energy efficiency and conservation programs via the Energy Resource Conservation (ERC) program. The law authorized the Secretary to permit the extension of loan principal or interest for up to 5 years. The regulation extends the authority to allow borrowers a deferment of principal, re-amortized over 7 years, to make funds available

for caulking, weather-stripping, heat pumps systems, water heaters, central heating and air conditioning system replacements, ceiling/flooring/duct insulation, and storm and thermal windows.

Under the ERC program, there have been 43 agreements with approximately $64 million deferred since the first agreement in 1981. Although this program has long been available for energy efficiency efforts, the pool of loans eligible for deferments is declining.

The 2008 Farm Bill also amended Section 12 of the Rural Electrification Act to allow deferment of principal and interest, rather than just principal, for the purposes of energy efficiency, improved energy efficiency and demand reductions, and energy audits.

H.R. 4785 is an energy savings loan program for rural areas. It provides for a $4.9 billion loan level available, assuming a cost of $755 million for 5 years or until the funds are fully obligated. We are uncertain whether or not this is a realistic assumption. An additional $238 million is authorized for grants, technical assistance, and administrative expenses for RUS to implement the program. Individual co-ops or state-based groups of

co-ops apply for a loan to fund energy efficiency programs for their members. This program would allow the RUS borrower to re-lend the funds to their consumers for energy efficiency measures. These measures include projects such as sealing, insulation, HVAC systems, boilers, roofs and other structural improvements and investments that the utility has demonstrated to RUS will produce sufficient savings. Energy efficient appliances are not eligible for this program.

Under H.R. 4785, RUS will receive and review the borrowers' energy efficiency plan. The plan must include: the type of energy efficiency measures, the savings associated with the measures, and how they will implement the plan. Trained auditors and contractors will conduct individual consumer energy audits to determine what sorts of energy efficiency improvements are warranted. The loan will be supported by the implementation plan and will include a system-wide energy savings.

The RUS borrower will receive a zero-interest loan to provide low-interest consumer loans to its members. The consumer loans will carry an interest rate no higher than 3%. The reason for this limited interest costs

above zero is to fund a loan loss reserve and offset personnel and program implementation costs. Typical consumer loans may be $1,500 to $7,000.

The consumer's energy savings will be reflected on the electricity bills. The savings reflected on the bill assume the project will pay back the energy efficiency measures within a 10 year period. The goal of these loans is for the energy savings from the upgrade to cover most, if not all, of the cost of the loan. If successful, consumers will potentially continue to save on their energy bills after the loan is repaid. RUS would use its existing procedures to approve loans and to advance funds. In accordance with current practice in RUS Electric programs, no loan funds would be advanced on approved loans until the utility borrower submits documentation of work completed for the approved purposes of this program.

H.R. 4785 also identifies a "jumpstart" grant, not to exceed 4% of the loan, to the RUS borrower to begin the process. The grant funds may be used to defray the costs of implementing the re-lending program. The borrower may use these funds to pay contractors and/or procure for equipment and labor.

H.R. 4785 also identifies a $2 million grant 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 in whose homes and businesses upgrades are being made. It would, for example, allow RUS to offer zero-interest loans for up to 10 years to current borrowers to fund energy efficiency measures for their consumers. If H.R. 4785 were enacted the energy efficiency efforts for this rural energy savings program does fit within the authority of the RUS. The definition of eligible entity in the proposed legislation would include all previous or current RUS borrowers, or a subsidiary or affiliate of a previous or current RUS borrower.

The repayment period of 10 years on the zero-interest loan would be a deviation from our existing law that requires the loan term to match the useful life of the asset. As a result, the legislation contemplates a net cost that is substantially higher than our existing programs, which currently operate on a zero subsidy model.

Although existing RUS regulations provide strong protection against fraud,it is important to ensure either in statute or implementing regulations that borrowers under H.R. 4785 maintain strong internal controls and

adequate monitoring. The success of this program will hinge on this. Finally, the legislation limits the amount of funds that a borrower can advance during a single year to 50 percent of the loan amount. Currently, RUS borrowers request loan funds on a reimbursement basis with verification of completed work orders. This reimbursement provision is generally considered more advantageous for the lender—in this case, RUS—than those which advance funds.

RUS currently reviews and approves borrower's load forecasts. The load forecasts use economic modeling to capture expected load reductions from energy efficiency programs, energy conservations and load management programs. The cooperative segment of the electric industry has been a nationally recognized leader in energy efficiency and demand side management practices. Such practices reduce demand and help mitigate the need for new electric generation capacity.

RUS has also been instrumental in financing a popular and successful effort to install geo-thermal ground loop systems replacing inefficient heating and air conditioning systems. The upfront cost of these systems can be prohibitively expensive for many homeowners, but with the assistance of

the ERC program, the cost to the home owner can be reduced to affordable levels.

Recently, for example, two cooperatives in Alabama and Kentucky and the Hawaii Habitat for Humanity Office were awarded High Energy Cost Grants, administered by the Electric Program, to assist low income homeowners to install energy efficiency measures to reduce their energy bills. A previous grant to the Alabama cooperative proposes to assist 100 very low income home owners repair or replace duct work, install energy efficient appliances, replace inefficient furnaces and central air conditioners with highly efficient heat pumps, install insulation and energy efficient doors and windows. These efforts reduce not only the energy bills of the home owner, but also the amount of energy the cooperative has to purchase to serve those homes. One example shows the home owner monthly electric bill decreasing from 3,979 kwh per month to 2,080 kwh per month, a 48 percent reduction.

H.R. 4785 would require RUS to contract for services to provide program measurement and verification, in addition to training and technical assistance to implement and deliver consumer energy efficiency projects.

The legislation provides funding for additional staff and program expenses to manage the energy efficiency efforts. RUS is reviewing these provisions to determine their impact on our current program.

Mr. Chairman, thank you for the opportunity to testify to provide details on the impact H.R. 4785 would have on the RUS programs. I would be pleased to answer any questions the members of the subcommittee have.