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Testimony of NRECA to the United States House of Representatives  
Committee on Agriculture  
Subcommittee on Conservation, Credit, Energy, and Research

Hearing on the Rural Energy Program Savings Act  
Wednesday, May 12, 2010



**National Rural Electric  
Cooperative Association**

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Testimony of the Honorable Glenn English  
National Rural Electric Cooperative Association

Before the

Committee on Agriculture  
U.S. House of Representatives

May 12, 2010

I thank you for inviting me to provide the views of electric cooperatives on the Rural Energy Savings Program Act (RESPA), H.R. 4785. It is an honor to appear before the House Agriculture Committee again.

The National Rural Electric Cooperative Association (NRECA) is the not-for-profit, national service organization representing nearly 930 not-for-profit, member-owned, rural electric cooperative systems, which serve 42 million customers in 47 states. NRECA 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. 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 constituents of many members of the Committee.

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. In summary, 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 household income in the service territories of most of our member co-ops is below the national average income by over 14 percent. A major challenge facing electric cooperatives is how to help their consumers invest in energy efficiency improvements of their homes and businesses so that they can save money in the short run, and also help their cooperatives avoid the long-term costs and environmental impacts of building new electric infrastructure that could be avoided through efficiency savings.

***New RUS Program to Meet Greater Need for Efficiency Savings in an Austere Budget***

Electric cooperatives were born in the adverse economic times of the Great Depression 75 years ago, when the federal government created the Rural Electrification Act (REA)

loan program. The combination of federal loans and the determination of rural people to create viable utilities that would increase their quality of life resulted in one of the longest lasting and most successful economic initiatives ever mounted in the United States. At its very core, the REA was and still is a self-help program. It was bold to create such a program at the height of the Great Depression, but it worked. Now called the Rural Utilities Service (RUS), the Congress has continued to authorize these loans to not-for-profit utilities to build and maintain a highly reliable electricity infrastructure that includes distribution, transmission and generation facilities.

Although efficiency investments have always been part of the culture of the electric cooperatives and part of the RUS mission, the authorization of energy efficiency loan programs under Section 6101 – “Energy Efficiency Programs” of the Food, Conservation and Energy Act of 2008 (“Farm Bill”) recognized that efficiency investments are now a key component of providing electricity services to consumers of RUS borrowers. However, the current RUS loan program is already oversubscribed just to meet basic infrastructure needs of RUS electric utility borrowers.

Currently, the cost of loans to the electric cooperative is the Treasury rate plus one-eighth of 1 percent. Many cooperatives provide efficiency help in the form of rebates and, in some cases, financing for consumers. A barrier for electric cooperatives is that they have limited financial resources available to provide these services on a large scale. And the cost of the current loan program would make the interest rates that the cooperatives would have to charge a major barrier for many of the consumers that cooperatives serve.

In July 2009, McKinsey & Company published a major report on how to unlock energy efficiency in the U.S. economy and capture unrealized energy efficiency potential. We agree with much of their analysis about the barriers that must be overcome and this proposed new federal program was structured to address these barriers. A major barrier is the upfront costs of the upgrade which is beyond the reach of most consumers – even if the cost can be totally recovered over time or the initial price is reduced by a tax credit or rebate.

Another consumer barrier the McKinsey report documents is the lack of consumer awareness about what technologies are cost effective. Further, McKinsey’s review of programs that work documents the need for third-party involvement that could support a “do-it-for-me” approach that addresses all of the non-capital barriers as well. The Rural Energy Saving Program Act was designed specifically to address these barriers while minimizing the impact on the federal budget.

This proposal utilizes the current RUS loan procedures, instead of creating new federal infrastructure. The program 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. While the program does have a relatively small grant component (equaling no more than 4 percent of the loan to a cooperative to offset costs for initiating the program), the overwhelming component of RESPA is a \$4.9 billion loan program.

The electric cooperatives already have the billing systems in place to allow the consumer to repay the loan on their electric bill. National consumer satisfaction surveys consistently show that electric cooperatives rate the highest in satisfaction among all of the utility sectors. Overwhelmingly, our consumers trust their cooperatives to provide high quality services, and this trust would be called upon to allow the cooperatives to oversee the installation of quality efficiency upgrades for their consumer-members. The electric cooperatives have strong, established consumer communication programs and can get the information out about the efficiency opportunities that would be provided by this program. 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 in that any investment in efficiency retrofits must substantially be able to pay for itself in energy savings in ten years or less. This rule would preclude efficiency technologies that are not cost effective within a ten-year period. This requirement will also help build market pressure to bring costs down for efficiency technologies that are currently very expensive. RESPA allows the initial set of technologies that the cooperatives submit in their RUS loan applications to be amended when information can be provided that new technologies can meet this cost-benefit test.

This cost-benefit rule will allow the cooperatives to reduce the energy bills of consumers enough to both give the consumers a small savings below their current cost of energy each month *and* allow them to pay off their consumer loans provided by the electric cooperatives at low, but no more than 3 percent, interest within a ten-year period. Because the cooperatives are responsible for paying back the federal loan, they have an enormous incentive to make sure that the program works, that the savings promised occur and that their consumer owners get the value promised.

The cost-benefit test means that not every efficiency technology on the market will be used. The program is focused only on upgrades that are part of the structure of a home or business that is in the cooperative service territory because a significant goal of the program is to reduce the need for new expensive investment in new electric infrastructure, while supporting the obvious job-creation for contractors and equipment manufacturers.

This program is not targeted at such things as energy efficient appliances, but rather on very cost-effective improvements like HVAC systems, heating boilers, geothermal systems and high-rated insulation to the “building envelope” of the structures. 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 of this case would be if a cooperative decides to include in their program the replacement of old inefficient oil furnaces with high efficiency geothermal systems or heat pumps.

The program will not cover the costs to the electric cooperative that decides to implement

energy efficiency activities through RESPA in the short-term. The initial costs will be spread across all consumer-owners of the electric cooperative for the purposes of lowering their costs in the long-term by avoiding the cost of new expensive electricity infrastructure. Other than the profit that will be taken by manufacturers and contractors, the “do-it-for-me” role of the electric cooperatives will be done in accordance with our not-for-profit business model whose central purpose is to provide affordable electricity to undergird the quality of life and economic vitality of the communities we serve. This is a new chapter in the successful history of the mission of RUS in partnership with the electric cooperatives.

### **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.

Cooperatives support federal incentives to remove barriers so efficiency investments can be maximized. For example, NRECA supports extensions of consumer efficiency tax credits, increased federal investment in advanced energy technologies, and strengthened efficiency of hydropower projects and other existing generation. In the Energy Investment and Security Act of 2007, NRECA supported a national efficiency model building code. In 2008, NRECA called for a massive investment in weatherization for the poorest fifth of U.S. households. A federal program is needed that would maximize the cooperative delivery system and provide some additional support for the tough job of capturing efficiencies in rural communities.

### **Co-op Consumers Need a New Efficiency Program Tailored to Their Needs**

In 2010, the convergence of energy policy and federal efforts to create jobs has yielded several energy efficiency proposals aimed at encouraging consumers to make energy efficiency investments. Popular mechanisms in these proposals include access to lower-cost capital, equipment and materials rebates or tax credits. NRECA believes these proposals have a great deal of merit. However, none of them quite fit the demographics of the people and areas typically served by electric cooperatives.

Nationally, two-thirds of the electricity distributed by cooperatives is delivered to homes, farms and ranches, with the remainder going to commercial and industrial businesses. In

comparison, other electricity sectors' loads are two-thirds commercial and industrial businesses. One out of seven people served by cooperatives lives below the federal poverty line. The average cost (\$1,500 and up) of transformational energy efficiency upgrades has deterred many co-op consumers from making their homes and businesses more efficient.

Co-op consumers often can see striking reductions in energy usage when aggressive efficiency measures are applied. However, there are many barriers. Many consumers lack enough disposable income, adequate access to information about cost-effective efficiency measures or knowledge of trusted contractors to do the work.

These concerns were the springboard for the introduction of legislation creating the Rural Energy Savings Program Act this spring. RESPA would provide electric cooperative consumers with low-cost financing for energy efficiency improvements to homes and businesses that hold the potential of delivering enough savings in energy costs to substantially repay the loan in no more than ten years.

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

#### *RUS Loans and "Jump-Start" Grants*

Under this proposed legislation, the U.S. Department of Agriculture (USDA) Rural Utilities Service (RUS) will administer the loan program at the heart of RESPA. RUS will be able to issue \$4.9 billion in ten-year, 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" grant of no more than 4 percent of the loan amount to defray 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.

This legislation authorizes ten new positions for the Rural Utilities service. RUS is a very small but capable agency, which has seen its staff reduced by 25 percent over the last 15 years. But, this agency has, through the work of dedicated federal employees, maintained the RUS mission. The addition of these positions recognizes the demands

that will be placed on RUS staff and the important role of this small but critical energy-related agency within the U.S. Department of Agriculture.

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

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.

Typical consumer loans will be \$1,500 to \$7,000, and will cover sealing, insulation, HVAC systems, boilers, roofs, and other improvements 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.

A grant will fund a program-wide measurement and verification system to track quality control and savings for the ten-year loan period. A training program will be established, funded by 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 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.

## **Cost-Effective RESPA Will Create Jobs**

The total cost is \$993 million for a 10-year, \$4.9 billion consumer loan program, consisting of:

- \$755 million in budget authority for the \$4.9 billion in zero interest loans to cooperatives.
- \$200 million for the grant fund to provide jump-start funds.
- \$1.1 million annually for ten additional RUS staff.
- \$2.5 million annually to fund measurement and verification systems to ensure that improvements are installed as contracted and projected energy savings are achieved.
- \$2 million one-time-grant to train electric co-op personnel to develop and implement the consumer-level efficiency loan programs.

This proposal will create or save an average of 20,000 to 34,000 additional jobs each of the ten years of the program.

## **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. NRECA looks forward to working with members of this Committee.

Committee on Agriculture  
U.S. House of Representatives  
Required Witness Disclosure Form

House Rules\* require nongovernmental witnesses to disclose the amount and source of Federal grants received since October 1, 2006.

Name: Glenn English

Address: 4301 Wilson Blvd., Arlington, VA 22203

Telephone: (703) 907 - 5541

Organization you represent (if any): National Rural Electric Cooperative Association

1. Please list any federal grants or contracts (including subgrants and subcontracts) you have received since October 1, 2006, as well as the source and the amount of each grant or contract. House Rules do **NOT** require disclosure of federal payments to individuals, such as Social Security or Medicare benefits, farm program payments, or assistance to agricultural producers:

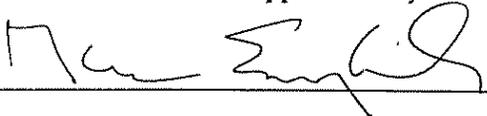
Source: \_\_\_\_\_ Amount: \_\_\_\_\_

Source: \_\_\_\_\_ Amount: \_\_\_\_\_

2. If you are appearing on behalf of an organization, please list any federal grants or contracts (including subgrants and subcontracts) the organization has received since October 1, 2006, as well as the source and the amount of each grant or contract:

Please see attachment. (These items represent almost entirely grants (sub-grants) or contracts (sub-contracts) related to the NRECA International Programs Division, a subsidiary, for economic development electrification projects overseas.)

Please check here if this form is NOT applicable to you: \_\_\_\_\_

Signature: 

\* Rule XI, clause 2(g)(4) of the U S House of Representatives provides: *Each committee shall, to the greatest extent practicable, require witnesses who appear before it to submit in advance written statements of proposed testimony and to limit their initial presentations to the committee to brief summaries thereof. In the case of a witness appearing in a nongovernmental capacity, a written statement of proposed testimony shall include a curriculum vitae and a disclosure of the amount and source (by agency and program) of each Federal grant (or subgrant thereof) or contract (or subcontract thereof) received during the current fiscal year or either of the two previous fiscal years by the witness or by any entity represented by the witness*

PLEASE ATTACH DISCLOSURE FORM TO EACH COPY OF TESTIMONY.

**NRECA & Subsidiaries**  
**Schedule of Government Grants & Contracts**  
**Awarded Subsequent to June 1, 2003**

Contract Name	Contract Number	Date Awarded	Expiration Date	Award Amount	Award Greater Than 10% Consolidated Revenue
Renewable Energy & Energy Tech Trsfr.	DE-FG65-08WA38300	6/4/2008	6/3/2009	85,000	No
Renewable Energy & Energy Tech Trsfr.	DE-FG65-09WA41284	6/4/2009	6/3/2010	90,000	No
Wind Workshops	DE-FG65-05WA28940	3/6/2006	3/1/2008	287,000	No
Wind Workshops	DE-FG65-04WA25378	5/24/2004	10/1/2004	75,000	No
CRN - Smart Grid Technology Grant	DE-OE0000222	11/1/2009	12/31/2014	33,932,146	No
Ocean Freight	PVC-A-00-04-00050-00	9/27/2006	9/28/2008	92,908	No
Bangladesh REDP	388-C-00-06-00008-00	3/1/2006	2/28/2011	5,808,282	No
Sudan RE Program	623-A-00-05-00310-00	7/4/2005	5/31/2008	6,500,000	No
Grenada Hurricane Assessment	FDA-O-00-04-00075-00	9/30/2004	10/12/2004	35,403	No
Chapare Gas Study	511-O-00-04-00092-00	9/29/2004	1/15/2005	80,500	No
Chapare Partnership Study	511-O-00-05-00086-00	8/2/2005	12/31/2005	4,047	No
Bangladesh Strategy Paper	388-O-00-04-00063-00	9/16/2004	12/15/2004	46,500	No
Cooperative Development Prog.	AFP-A-00-04-00033-00	6/1/2004	5/31/2010	4,152,249	No
Wind Pre-Feasibility Analysis	520-O-00-04-00101-00	5/7/2004	9/30/2004	90,000	No
Implementing RE Plan	517-A-00-03-00117-00	5/16/2003	5/12/2007	3,044,227	No
Yungas Warehousing	511-G-00-08-00199-00	7/1/2008	6/30/2010	154,519	No
2008-2010 OFR	PVC-A-00-06-00032-00	9/24/2008	9/22/2010	134,640	No
Sudan Infrastructure Support Program	NRECA09-13GH-2003	10/1/2007	9/28/2011	8,397,152	No
ACEP	EPP-I-00-03-00006-00	9/8/2009	9/7/2013	860,726	No
Training the Trainers	386-C-00-03-00135-00/S00020A	5/31/2005	9/30/2005	17,000	No
PRA	EPP-I-00-03-00004-00NRECA	4/18/2005	6/24/2005	47,465	No
Afghanistan Alternative Livelihoods Prg.	306-M00-05-00516-00NRECA	3/3/2005	9/30/2009	2,094,681	No
Support from CAM Regional Strategy	276876	4/7/2004	7/30/2004	2,857	No
Peru Study	527-C-00-99-00271-00-NRECA	11/20/2003	3/4/2004	162,266	No
ICEA	EPP-I-00-03-00006-00	8/1/2008	9/29/2011	3,243,492	No
Food for Progress - Dom. Republic	FGR-517-2006/090-00	8/9/2006	12/31/2009	6,480,000	No
Security Workshops	-	9/21/2004	9/30/2005	50,000	No
Food for Progress - Bolivia	FGR-511-2003/079-00	8/5/2003	8/4/2005	4,595,000	No
TDA Yemen	-	10/8/2007	8/31/2009	579,616	No
TDA Yemen II	-	10/28/2009	1/31/2011	324,228	No
TDA Philippines	-	10/1/2008	10/15/2011	404,510	No
Wastewater System Models	X-83085101-0 NRECA	7/1/2004	8/31/2005	204,190	No
<b>Total Awards Received Subsequent to 6/1/2003</b>				<b>\$ 82,075,604</b>	
<b>Awards Greater than 10% of Consolidated Revenue</b>				<b>-</b>	
<b>Awards Less Than 10% of Consolidated Revenue</b>				<b>\$ 82,075,604</b>	



# National Rural Electric Cooperative Association

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## BIOGRAPHY OF GLENN ENGLISH CHIEF EXECUTIVE OFFICER

In March 1994, Glenn English became the fourth chief executive officer of the National Rural Electric Cooperative Association (NRECA). As chief spokesman for the nation's consumer-owned, cooperative electric utilities, he represents the national interests of electric cooperatives and their consumers before the United States Congress and Executive Branch federal agencies.

Foremost among the issues facing electric cooperatives today is the priority to promote and protect the electric cooperative business model in the political and business arenas. Legislative and regulatory actions regarding the electric utility industry and their impact on electric cooperatives continue to focus association efforts on consumer advocacy. English is a strong advocate for small-business and residential electric consumers as lawmakers, regulators and other influentials attempt to make their mark on electric utility change at the state, regional and national levels. He is a frequent speaker from the co-op and consumer perspective at meetings of business, industry, and consumer groups, as well as electric co-op and allied groups around the country.

Prior to assuming the NRECA post, English was elected by the people of Oklahoma's 6th District to 10 terms in the U.S. House of Representatives; he was first elected in 1974. His leadership positions included chairmanship of the House Agriculture Subcommittee on Environment, Credit, and Rural Development; and the House Government Operations Subcommittee on Government Information, Justice, and Agriculture.

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*NRECA is the national service organization that represents the nation's more than 900 consumer-owned electric cooperatives, which provide electric service to 40 million people in 47 states. Visit NRECA's web site at [www.nreca.coop](http://www.nreca.coop).*