

**Joint Comments  
to the United States Department of Agriculture  
on the  
Section 9007 Rural Energy for America Program**

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## **Introduction**

Our organizations are pleased to submit the following comments to the U.S. Department of Agriculture on the Rural Energy for America Program (REAP). REAP's predecessor, the Section 9006 Renewable Energy Systems and Energy Efficiency Improvements Program, has provided grants and loan guarantees to over 2000 projects of all types and sizes - from small efficiency projects to large wind farm and biofuel facilities - in all 50 states. The increased funding and statutory changes in the 2008 Farm Bill will create new opportunities for this program to reach more agricultural producers and rural small businesses, help control energy costs and produce more sustainable, renewable energy.

We understand that USDA currently intends to implement REAP in two phases over the next year: in the first phase, before the end of 2008, USDA will issue a Notice of Funds Availability for REAP that includes guidelines for the new energy audit/assessment and feasibility study components of REAP, as well as select other improvements. Next year, in phase two, USDA intends to initiate a rulemaking for REAP to make other changes to further enhance the program.

These comments focus on the first phase of REAP implementation. Our recommendations include the following:

1. Implement the energy audit/renewable energy development assistance program as recommended in these comments to ensure that the limited funding available for this program maximizes potential benefits to the agricultural producers and rural small businesses that it targets and sets the foundation for a strong program.
2. To eliminate bias against grant-only applications, and to recognize the seasonal nature of many agricultural enterprises, allow rolling applications throughout the year for

grants, and eliminate the demonstrably unnecessary funding set-aside for loan guarantees.

3. To allow all otherwise eligible agricultural producers to access the REAP program, allow (as the statutory change in the 2008 farm bill now requires) agricultural producers from non-rural areas to apply for REAP grants and loan guarantees.
4. To improve REAP's "user-friendliness" and reduce application barriers, continue to simplify and streamline the grant application process, which many farmers and rural small businesses find to be complicated and time-consuming.

**I. Energy Audits and Renewable Energy Development Assessment**

REAP's new energy audit/renewable energy assessment provision is important because assistance for energy audits and development targeted at the agricultural sector is not available in most states<sup>1</sup>. Because the Department has not yet administered a similar technical assistance program, we have several recommendations to ensure that the limited funding available for this program maximizes benefits to the agricultural producers and rural small businesses.

We urge USDA to expedite implementation of REAP's energy technical assistance program as soon as possible in this fiscal year, since the statute requires all funds to be obligated for this part of REAP by April 1.

**A. Eligible Entities**

Section 9007(b)(2)(D) authorizes USDA to issue grants to "any other similar entity" in addition to the specified government units, higher-education institutions and rural electric cooperatives or public power entities. USDA should interpret the term "any other similar entity" to include non-profit organizations that serve the agricultural or rural business sectors. Most such

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<sup>1</sup> American Council for an Energy Efficient Economy, "Energy Efficiency Programs in Agriculture: Design, Success and Lessons Learned," 2005

non-profits are tax-exempt precisely because they serve important educational, charitable and other important public purposes similar to the named entities. For example, RC&D Councils, agricultural commodity organizations and farmer cooperatives play important educational and business support roles for their service territories and constituents.

We also recommend that two or more eligible entities be permitted to submit a single, joint application, for example, a rural electric cooperative partnering with a university cooperative-extension service and a state energy office.

Entities also should be allowed to subcontract to either for-profit or public/not-for-profit entities to deliver energy audits, renewable energy assessments or other energy information services. Some organizations that lack the technical expertise to carry out energy audits may have other attributes that make them good candidates to administer a program otherwise, such as outreach capabilities, access to a network of agricultural producers and rural small businesses or expertise in renewable energy or energy efficiency technologies.

We also recommend that the statutorily-mandated 5% cap on administrative expenses apply only to the direct use of program funds and not the matching funds. This will provide the flexibility many entities may need to structure partnerships.

#### **B. Use of Grant Funds**

Entities should have maximum flexibility to tailor their programs to the specific needs and opportunities in their targeted geographic service area. The legislation broadly authorizes recipients to use grant funds to (1) conduct and promote energy audits; and (2) provide recommendations and information on how to improve farm and rural small business energy efficiency and how to use renewable energy technologies and resources in operations. (§ 9007(b)(4)).

Within this broad authorization, we support four categories of eligible activities:

1. ***Energy audits:*** These audits are essential for identifying opportunities for energy efficiency improvements.
2. ***Renewable energy assessments:*** The potential for agricultural producers and rural small businesses to produce energy from renewable sources depends entirely on the resource availability – whether it be wind, sun or biomass – and market access (e.g., transmission and a buyer).
3. ***In-field energy management:*** Improving fuel and fertilizer use efficiency are critical ways to help many farmers (especially grain farmers) lower their largest variable operating costs. Diesel, gasoline and fertilizer (synthesized from natural gas) prices have risen sharply in recent years. Permitting grantees to focus on in-field energy management, including precision agriculture assessments, could help farmers reduce these expenditures.
4. ***Workshops and educational activities:*** In-person workshops, videoconferencing, webinars, websites and printed materials should all be eligible activities. While these are not substitutes for direct one-on-one audits, these activities allow a grantee to leverage limited resources in reaching a broader audience and to promote the availability of audits.

### **C. Maximum Grant Size and Related Conditions**

We recommend that USDA limit grants to \$250,000 per year for single-entity applicants and \$500,000 per year for multiple-entity applicants. Since energy technical assistance funding is limited to 4% of total Section 9007 funding (or approximately \$2.8 million per year in FY2009), this limit ensures that at least 5-10 projects will receive funding. A smaller cap would limit the

ability of the program to reach large service areas, while a larger cap could limit the number of projects and, as a consequence, limit the geographic area that the program can cover.

USDA should allow for and, indeed give preference to, multi-year grant requests. Multi-year grants would help to maintain program continuity as awareness of local energy technical assistance programs and providers grows. Multi-year grants would also better serve farmers and rural small businesses by enhancing the knowledge base of the providers. A grant period of two to three years would allow this continuity while providing an opportunity for USDA to periodically review whether the grant recipient is utilizing the limited funding in the most effective way.

#### **D. Selection Criteria**

REAP includes six specific criteria that USDA must consider in reviewing applications from eligible entities for energy technical assistance grants. USDA should use a point-based system to evaluate and select grant applicants, weighting the selection criteria on their relative importance.

##### **1. Top-Tier Criteria**

We propose ranking three criteria more highly: the potential of the programs to achieve benefits, the effectiveness of the proposed plan, and the ability and expertise of the applicant. These criteria are critical to ensuring high quality and cost-effective audit and education programs, *especially in program's early years with very limited funding*. Moreover, given the limited funding, USDA should encourage the best approaches that can be replicated in other areas after demonstrated success.

- ***“The potential of the proposed program to produce energy savings and environmental benefits.” (§ 9007(b)(3)(D)).***

This criterion is connected closely to the separate statutory criterion of the applicant’s outreach and assistance plan, discussed below (§ 9007(b)(3)(E)). All things being equal, a thoughtfully-prepared and realistically-achievable plan has the *potential* to achieve more energy savings and environmental benefits than a poorly-prepared or unrealistic plan. However, putting aside the plan itself, USDA can take into account at least three factors when evaluating the proposed program’s potential for energy savings and environmental benefits. They are:

- *Whether the proposed plan complements and encourages strong applications for REAP grants and loan guarantees for energy efficiency investments and renewable energy projects.* REAP’s energy technical assistance provisions can improve the number and quality of REAP-financed projects that produce quantifiable energy savings and environmental benefits. USDA should encourage this synergy by awarding more points in this criterion for proposed programs that align with the REAP grant and loan guarantee program.
- *The relative energy savings opportunities in the targeted sector or geographic area.* Some sectors and areas are likely to have more opportunities than others. USDA could take into account, for example, the degree to which commercially-available energy-saving technologies appropriate for a particular sector could lower energy consumption from its current baseline.
- *Likelihood that the beneficiaries of the program will act.* The program’s energy savings potential (and environmental benefits) also is influenced by the likelihood that individuals or businesses assisted by an energy audit program are likely to take action to address these energy savings opportunities. They may be more

We also urge USDA to require applicants to address potential greenhouse gas reduction benefits as one of the “environmental benefits.” USDA should consult with the Department of Energy and the Environmental Protection Agency in implementing this criterion.

- ***“The plan of the eligible entity for performing outreach and providing information and assistance to agricultural producers and rural small businesses on the benefits of energy efficiency and renewable energy development.” (§ 9007(b)(3)(E)).***

The plan should include any existing outreach networks that might be utilized to better serve the target population.

Additionally, the applicant should be required to provide details about the sectors and technologies that they intend to target.

The USDA also should encourage entities to use *proven*, standardized tools such as on-line/self-auditing systems as a first step.

The Department should give preference to proposals that seek to deliver a combination of educational activities and direct assistance. For example, a well-designed plan could include larger workshops for interested producers and rural small businesses, encouragement to use self-assessment tools, followed by qualified energy audits for those sufficiently interested to pay the required cost-share for services. (This is referred to as the “funneling effect.”) Also, others who attend the workshop could benefit even if they do not want an audit (for example, if they take their own actions to increase their energy efficiency or install new renewable energy projects.).

Applicants need not, however, provide a full range of services to be considered for a grant. For example, an applicant may be able to justify why only energy audits are necessary in a

given project area. Similarly, programs that target only one sector or technology - for example, dairy farms or retail businesses - should also be given full consideration. Finally, the Department should award more points to entities that are capable of providing follow-up support and assistance in helping farmers and rural businesses to implement recommendations (while keeping in mind the old adage that you can lead a horse to water but you can't make it drink).

We also believe that grant applications should be evaluated both on the merits of the services the entity would provide directly as well as the program's capacity-building potential. This would ensure that the program benefits continue on even if federal funding is not available in future years. This is very important since many states lack comprehensive energy technical assistance program for agriculture.<sup>2</sup> REAP therefore can help grow complementary non-federal programs which are necessary to help achieve national agriculture and energy policy objectives.

- ***“The ability and expertise of the eligible entity in providing professional energy audits and renewable energy assessments.” (§ 9007(b)(3)(A)).***

Although this criterion is important, many areas currently lack local expertise in agriculture-specific energy audits and renewable energy technical assistance. If applicants have a viable plan for staffing, training or contracting with people who have the technical skills necessary to effectively carry out the program, they should not be at a disadvantage if their application is otherwise outstanding relative to the criteria listed above.

## **2. Second-Tier Criteria**

In contrast, three other selection criteria should be given less weight. These criteria, while important, matter more to the long-term success and expansion of the program. In the near term,

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<sup>2</sup> See American Council for an Energy Efficient Economy, *“Energy Efficiency Programs in Agriculture: Design, Success and Lessons Learned”* (2005) (reporting that 30 states lack comprehensive agriculture energy efficiency programs).

given the newness of the program and very limited funding, these criteria should not unintentionally impede or dilute the program's effectiveness. They are:

- ***“The number of agricultural producers and rural small businesses to be assisted by the program” (§ 9007(b)(3)(C)).***

To achieve an efficient use of resources, the Department should evaluate applications by measuring the number of agricultural producers or businesses that can be meaningfully assisted *relative to the grant assistance requested*. This yardstick also will encourage a mix of project sizes that serves a range of populations, and will avoid bias in favor of projects that serve higher-population areas.

- ***“The ability to leverage other sources of funding” (§ 9007(b)(3)(F)).***

While leveraging federal dollars with existing funding is important, some preference should be given to grant applicants in states that do not have existing agriculture/rural energy efficiency programs in order to help these under-served areas.

- ***“The geographic scope of the program proposed by the eligible entity in relation to the identified need” (§ 9007(b)(3)(B)).***

As referenced above, applicants need not serve all agricultural and rural business sectors within a geographic area but can instead focus on areas of particular opportunity. Similarly, the geographic scope can be defined narrowly or broadly if the applicant can demonstrate a demand for energy technical assistance that is relative to the funds requested.

### **E. Merit review**

As the 2008 Farm Bill Conference Managers recommended (page 906 of the Managers' Report), USDA should engage NREL or another organization skilled in energy efficiency and renewable energy assessments to assist in the application merit review process.

### **F. Reporting**

Although the legislation does not specify any reporting requirements, grantees should submit reports semi-annually and at the end of the grant award period. These reports should outline services provided, number of services performed and persons or businesses reached, conversion (i.e., number of energy audits resulting in energy efficiency investments being made) and a detailed record of expenditures.

## **II. Renewable Energy and Energy Efficiency Grant and Loan Guarantee Program**

### **A. Eliminate the Application Process Bias Against Grant Applications**

The current 9006 application process creates a bias against the grant program in two important ways. First, USDA accepts applications for loan guarantees on a rolling basis while limiting grant-only applications to one or two short application periods. USDA should accept grant applications on a rolling basis, which will significantly improve applicant planning and timing with other private and public financing opportunities.

Second, the current application rules incorrectly prioritize funding for loan guarantees over grants, even though years of 9006 application and award history demonstrate that the preference is unnecessary and counterproductive. USDA therefore should eliminate the loan guarantee funding set-aside.

**1. Accept grant applications on a rolling basis**

Under current rules, USDA sets one or two application deadlines for grants each year, and the deadlines are different every year. These two factors significantly impede applicant planning efforts, especially for larger projects which require longer feasibility and planning horizons.

USDA could solve this problem by accepting grant applications on a rolling basis, with access to funds available on an open-ended, first-come, first-serve basis until funds are exhausted. USDA and NREL now have sufficient experience with six years of program implementation to effectively review applications. This solution also will align the REAP application process more closely with many state and utility incentive programs that process applications on a rolling basis throughout the year and for which applicants also may be eligible for funding. We expect that this solution also should be easier to implement considering the relatively greater certainty of funding from the REAP program, in part because funding is now required to be available until expended (rather than returned to the Treasury at the end of the fiscal year), and because funding levels are increasing.

Accepting grant applications on a rolling basis also will help to eliminate the disparate treatment between loan guarantees and grants. USDA typically processes loan guarantee applications within two weeks of receiving an application. In contrast, last year, for example, USDA established two grant deadlines and awarded most of the grants in June and September. This administrative preference (especially in combination with the funding set-aside, discussed below), creates bias against grant-only applications, since loan guarantees receive expedited treatment and earlier award decision announcements. The delay in processing grant awards reduces the benefit of the program to growers and businesses eager to move forward on their

projects. Accepting grant applications on a rolling basis would eliminate the disparity and enhance program success. USDA should also consider allowing those turned down due to low scores to resubmit improved applications.

**2. Eliminate the loan guarantee funding set-aside**

The current 9006 application rules include a funding set-aside of over 50% of the total available funding for applications including loan guarantee requests. This set-aside is unnecessary and creates an unfair preference in favor of loan guarantees and against grants, and USDA should eliminate it.

Although loan guarantees are important, the Section 9006 track record of the past several years has shown that the preference is not achieving USDA’s intended outcomes, *i.e.*, a strong demand for loan guarantees and the ability to leverage limited program funding. For example, in 2008, USDA set aside over \$204 million for loan guarantees or more than 50% of program funding. The Department also expedited review of loan guarantee or combination loan guarantee/grant applications (73 Fed. Reg. 12070). Despite this prioritization, USDA received requests for only \$71 million and awarded only \$15 million in loan guarantees. The following table shows results from the past three years:

<b>Fiscal Year</b>	<b>USDA Set Aside for Loan Guarantees (\$MM)</b>	<b>Loan Guarantees Requested (\$MM)</b>	<b>Loan Guarantees Awarded (\$MM)</b>
<b>2008</b>	205	71	16
<b>2007</b>	176	126	57
<b>2006</b>	176	58	24

These results demonstrate that the market demand for loan guarantees is well below that for grants, and does not justify the large set-aside.

Loan guarantees are a useful financing tool for larger projects, especially in the currently tight credit market. Indeed, 90% of the *value* of loan guarantees awarded from 2003-08 have

been for guarantees of \$250,000 or greater. Yet 80% of the total *number* of loan guarantee awards has been for requests of \$100,000 or less, which could suggest that applicants who typically do not need loan guarantees are requesting them in combination with grants to enhance their chances of receiving an award. While loan guarantees help lenders, these loan guarantees come at a *net cost* to recipients in the form of the upfront payment of up to 1% and annual renewal payment of 0.25%.

If future application experience suggests that a loan guarantee set-aside is necessary, USDA can adjust the program requirements. Until then, given the clear program history to the contrary, USDA should eliminate the set-aside and free up more money for grant applications.

**B. Expand Eligibility to Agricultural Producers in Non-Rural Areas**

The Section 9006 program previously applied to “farmers, ranchers and rural small businesses.” Under the USDA interpretation of this definition, greenhouses, nurseries and other producers located in non-rural areas were excluded from eligibility for Section 9006 grants and loan guarantees. This limitation is not equitable for non-rural agricultural producers, especially those that are located in formerly rural areas that are now “non-rural” due to population shifts. For example, as many as two-thirds of the greenhouse growers in Northwest Ohio are from Lucas County and are disqualified from participating in the program.<sup>3</sup>

The legislative language in Section 9007 of the 2008 Farm Bill deliberately expanded the scope of the renewable energy and energy efficiency grant and loan guarantee program to include all “agricultural producers and rural small businesses.” (§ 9006(c)(1)). Under this new statutory provision and USDA definitions of “agricultural producer”, the Department should recognize that that any greenhouse or nursery operation, and any other non-rural agricultural producer, is eligible for the grant and loan guarantee program, *regardless of location*.

### **C. Streamline the REAP Grant Application Process**

Further steps are necessary to streamline the REAP application process, which remains burdensome and an obstacle to a growth in applications for small projects. We propose two specific steps below to streamline the process and help the Department effectively manage the large increase in applications expected because of the higher funding level and the statutory set-aside on smaller projects.<sup>4</sup>

First, USDA should automate and/or put the application process on-line. At a minimum, this should include the creation of standard application templates and database-driven software systems to populate federal forms with common information (e.g., project owner, address, etc).

Second, USDA should provide a standard grant payment for projects utilizing certain pre-approved equipment and technologies, again on a continuous basis. Payments could be based on a cents/kilowatt-hour or cents/therm saved for efficiency projects (e.g., 4 cents per projected kWh saved during the first year following installation) or on a dollars/unit of capacity for small renewable projects (e.g., \$3/watt). The Department could get guidance from, and build upon, many of the state utility ratepayer-supported Clean Energy Funds in setting these levels<sup>5</sup>. While the types of standard incentives vary considerably across these state programs, some examples include:

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<sup>3</sup> See Letter from Maumee Valley Growers to USDA regarding the Energy Title Rulemaking (Sept. 19, 2008).

<sup>4</sup> We do appreciate the Department's actions in recent years to simplify the application process for smaller projects, such as reducing the amount of required personal financial information and eliminating the project technical study requirement. However, more changes are necessary.

<sup>5</sup> Good sources of information on these programs include the Clean Energy States Alliance ([www.cleanenergystates.org](http://www.cleanenergystates.org)), the New York State Energy Research and Development Authority ([www.nyserda.org](http://www.nyserda.org)), the Energy Trust of Oregon ([www.energytrust.org](http://www.energytrust.org)) and Wisconsin Focus on Energy ([www.focusonenergy.org](http://www.focusonenergy.org)).

<b>State</b>	<b>Technology</b>	<b>Incentive</b>
Wisconsin	Milk Pre-Cooler for Dairies	\$750
New York	Solar PV	\$3-5/installed watt
New Jersey	Small Wind Systems	\$3.20/annual kWh produced
California	Small Wind Systems	\$1.50/installed watt

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Thank you very much for your consideration of these comments on this very important Farm Bill clean energy program.