

RD AN No 4437. (4280-B)
May 19, 2009

TO: State Directors, Rural Development
ATTN: Business Programs Directors and Energy Coordinators
SUBJECT: Rural Energy for America Program
Scoring Clarification

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice is to provide clarification on the scoring criteria for applications under Section 9007, Rural Energy for America Program (REAP), which was formerly the Renewable Energy Systems and Energy Efficiency Improvements Program. The scoring guidelines are currently referenced in RD Instructions 4280.112(e). This guidance does not apply to the Feasibility Study or Energy Audit and Renewable Energy Development Assistance grants.

COMPARISON WITH PREVIOUS AN:

None.

IMPLEMENTATION RESPONSIBILITY:

The second tier review process has identified a number of concerns regarding nationwide consistency in the assignment of points for projects reviewed under the program. Based on these concerns, the Agency has identified the scoring criteria which require clarification. The following guidance will be used when scoring all applications under the program:

1. Criteria (1) **“Quantity of Energy Replaced, Produced, or Saved”**, the maximum score allowed is 15 points.

EXPIRATION DATE:
May 31, 2010

FILING INSTRUCTIONS:
Preceding RD Instruction 4280-B

The regulation states “Energy replacement is to be determined by dividing the estimated quantity of renewable energy to be generated over a 12-month period by the estimated quantity of energy consumed over the same 12-month period during the previous year by the applicable energy application. The estimated quantities of energy must be converted to either British thermal units (BTUs), kilowatts, or similar energy equivalents to facilitate scoring.” If a project involves new construction and a renewable energy system is being installed, the project would be classified as energy replacement only if the applicant can document the business’s previous energy usage from their similar sized facility, otherwise the project does not qualify as energy replacement project.

2. Criteria (2) “**Environmental Benefits**”, the score allowed is 10 points.

Environmental documentation needs to contain the following:

- An appropriate authority must document how the project meets established environmental goals or objectives of Federal, State or local programs.
- The documentation provided must reference the applicant by name, the REAP program, and specify the project for which the applicant has applied.

3. Criteria (3) “**Commercial Availability**”, the maximum score allowed is 10 points.

Complete documentation must be included that demonstrates the Renewable Energy System or Energy Efficiency Improvements have been determined to be commercially available. Applicants must provide evidence of “commercial availability” which shows that professional service providers, trades, large construction equipment providers and labor are readily available domestically and familiar with installation procedures and practices, and spare parts and service are readily available in the United States to properly maintain and operate the system. All warranties must be valid in the United States.

Five points will be awarded for systems that are currently commercially available and replicable but do not have a 5 year warranty. Applicants can be awarded the other 5 points under this criterion when they provide a copy of the warranty that will be awarded or a statement from the supplier/contractor detailing the warranty information. The Agency requires that a warranty must be 5-years or more on all **major components** being installed to receive the other 5 points. For example,

a restaurant is installing a new more efficient walk-in refrigerator. The applicant can demonstrate the refrigerator is commercially available and also provides documentation that the walls have a 10-year warranty, and the compressor has 5-year warranty. The application would qualify for 10 points. However, if the refrigerator is commercially available, and the walls have a 10-year warranty but the compressor only has a 2-year warranty, the project would only receive 5 points, because all major components do not have at least a 5-year warranty.

4. Criteria (5) “**Readiness (Grants Only)**”, the maximum score allowed is 15 points.

It is the Agency’s position that the term “Readiness” means Financial Readiness, and that the applicant can demonstrate the project has the necessary funds available from other sources to complete construction or assembly of the project.

- If financial resources come from the grantee, the grantee will submit documentation in the form of a bank statement that demonstrates availability of funds.
- If a lender is providing financial assistance, then a commitment letter, signed by an authorized bank official would be needed. The letter must be specific to the project, outline the amount of the loan, rates and terms. A letter-of-intent or a pre-qualification letter would not be acceptable. Letters that condition the funding on bank approval or other underwriting requirements is not acceptable. An acceptable condition may be based on the receipt of the REAP grant or an appraisal of property being completed.

5. RD Instruction 4280.103 defines a small business: *An entity is considered a small business in accordance with the Small Business Administration’s (SBA) small business size standards by the North American Industry Classification System (NAICS) found in Title 13 CFR part 121. A private entity, including a sole proprietorship, partnership, corporation, cooperative (including a cooperative qualified under section 501(c)(12) of the Internal Revenue Code), and an electric utility, including a Tribal or governmental electric utility, that provides service to rural consumers on a cost-of-service basis without support from public funds or subsidy from the Government authority establishing the district, provided such utilities meet SBA’s definition of small business. These entities must operate independent of direct Government control. With the exception of the entities described above, all other non-profit entities are excluded.*

Agricultural Producers can qualify as a small business if they can meet the requirements of a small business as defined above.

Criteria (6) “**Small Agricultural Producer/Very Small Rural Business**”, the maximum score allowed is 10 points.

An agricultural producer will score either 5 or 10 points as follows:

- a. An applicant that applies as an agricultural producer, evidencing a gross market value of agricultural products, per Internal Revenue Service (IRS) form and lines as indicated below, of less than \$200,000 in the preceding year, the applicant will be awarded 10 points.
- b. An applicant that applies as an agricultural producer, evidencing a gross market value of agricultural products per IRS form and lines as indicated below of less than \$600,000 in the preceding year, the applicant will be awarded 5 points. The maximum points that can be awarded under this criteria is 10 points.

General guidelines:

- IRS form 1120 – for corporation – line 1a
- IRS form 1120S – for an “S” corporation – line 1a
- IRS for 1065 – for a partnership – line 1a
- Schedule C – for a business – line 1
- Schedule F – for a farming operation – lines 3 & 4

- c. An applicant that defines itself as a small business, and can also meet the definition of very small business as defined in 4280.103 (a business with less than 15 employees as documented in their application narrative and less than \$1 million in annual receipts, per IRS form and lines as indicated below), will be awarded 10 points.

General guidelines:

- IRS form 1120 – for corporation – line 11
- IRS form 1120S – for an “S” corporation – line 6
- IRS for 1065 – for a partnership – line 8
- Schedule C – for a business – line 7
- Schedule F – for a farming operation – line 11

- d. An applicant cannot receive points as an agriculture producer and a very small business. If a REAP applicant identifies themselves as a rural small business then the Energy Coordinator will score them as a rural small business and not an agriculture producer.

6. Criteria (9) **“Return on Investment” (ROI)**,

a. ROI calculations for energy generation projects will be as follows:

Return on Investment is equal to:

Total Eligible Project Costs (including REAP Grant)/ Average Net Income +
(Interest Expense + Depreciation Expense (for the project))

Average Net Income:

- All energy related revenue streams which include monetary benefits from Production Tax Credit (PTC), Renewable Energy Credit, Carbon Credits, revenue from byproducts produced by the energy system and other incentives that can be annualized.
- Is income remaining after all project obligations are paid (operating and maintenance), except interest and depreciation.
- Should be based on the project’s typical year income (which is after the project is operating and stabilized) projections at the time of application submittal.
- Does not allow Investment Tax Credits, State tax incentives or other one time construction and investment related benefits that cannot be annualized to be included as income or reduce total eligible project costs.

b. ROI calculations for energy replacement and energy efficiency improvement projects will be as follows:

Return on Investment = Total Eligible Project Costs (including REAP Grant)/Dollar Value of Energy Produced (or Saved)

Dollar Value of Energy Produced or Saved incorporates the following:

- All energy related revenue streams which include monetary benefits from Production Tax Credit (PTC), Renewable Energy Credit, Carbon Credits, revenue from byproducts produced by the energy system and, other monetary incentives that can be annualized.
- Does not allow energy efficiency improvements to monetize benefits other than the dollar amount of the energy savings the agricultural producer or rural small business may realize as a result of the improvement.
- Does not allow Investment Tax Credits, State tax incentives or other one time construction and investment related benefits that cannot be annualized to be included as income or reduce total eligible project costs.

7. Technical Scoring of Hybrid Projects:

Hybrid Projects are a combination of two or more renewable energy technologies which are combined to form a single renewable energy project. The applications will need to include a separate technical report for each technology.

If a project consists of a hybrid technology, and the technical reviews are a State Office responsibility, the State will review the technical reports. If one or more of the technologies require National Renewable Energy Laboratory (NREL) review, NREL will review the technical reports. Each technical report will be evaluated and scored individually based on its own merit. The scores for the technologies will be consolidated using a weighted average approach based on the percentage of the cost for each system to the total project cost.

Example: A hybrid project contains a wind and solar photovoltaic components. The wind system will cost the \$30,000 and the solar will cost \$10,000. The wind technical report was evaluated and assigned a total score of 22 points while the solar report was evaluated and assigned a total score of 31 points. In this scenario the final technical score would assigned as follows: $(22 \times 75 \text{ percent}) + (31 \times 25 \text{ percent}) = 24.25$.

Note: If at any time questions arise when scoring these projects, please contact the National Office for further guidance.

If you have any questions, please contact the Energy Division, at (202) 720-1400.

(Signed by William F. Hagy III)

WILLIAM F. HAGY III
Acting Administrator
Business and Cooperative Programs