

RURAL UTILITIES SERVICE

Providing Affordable Infrastructure and Economic Opportunity

Consumer-owned, not-for-profit electric cooperatives generate less than 5 percent of the nation's electric power but maintain nearly half of the nation's electric distribution lines. Electric cooperatives serve 12 percent (approximately 42 million) of the nation's electric consumers and cover 75 percent of the land mass.

A 70-year partnership with the U.S. Department of Agriculture's Rural Utilities Service (RUS) makes it possible for cooperatives to construct and maintain their distribution and generation systems. RUS interest-bearing loans help make these worthwhile investments possible and allow cooperatives to stabilize consumer rates. The RUS loan program represents a minimal federal investment that, coupled with efficient, locally controlled management of electric cooperatives, has resulted in a cooperative electric infrastructure admired around the world. In fact, the electric cooperative International Program uses the RUS model to bring electricity to dozens of developing countries.

As demand for power grows, RUS loans are critical for making sure adequate electric infrastructure remains available and new, cleaner technologies can contribute to the cooperative power supply portfolio. The low-cost RUS program compensates for the fact that cooperatives are not eligible for more generous federal subsidies, provided through the federal tax code, to the investor-owned and municipal utility sectors. Electric cooperatives and RUS continue to maintain a record of careful loan management and repayment that results in negligible federal budget impacts.

In light of the recent credit crisis, RUS financing has become all the more important to electric cooperatives. Additionally, as government and communities work together to stimulate the economy, RUS and cooperatives continue to provide a significant portion of the infrastructure that is essential to economic well-being and job creation.

Farm Bill Reauthorization – New Opportunities and Continuing Challenges

Expanded Opportunities for Co-op Renewable Electricity and Energy Efficiency Efforts

Overall, the 2007 Farm Bill reauthorization ("Farm Bill"), passed in 2008, recognized the value of the long-standing partnership between RUS and electric cooperatives. It authorized RUS, as a way to expand the availability of renewable power, to encourage electric cooperatives to generate renewable electricity for resale to non-rural residents. Amendments also gave co-ops permission to defer payments on RUS loans for the purposes of demand reduction and improved energy efficiency.

Maintained a Valuable Financing Tool

The USDA Guaranteed Underwriter program, reauthorized in the Farm Bill, allows a qualified private lender to issue a guaranteed note to the Federal Financing Bank (FFB) and use the proceeds from that note to make utility loans to rural electric cooperatives. This program strengthens the public-private partnership and leverages additional investment in rural America at no cost to the federal government. In addition, a guarantee fee paid by the private lenders supports the Rural Economic Development Loan and Grant program (REDL&G) that helps electric cooperatives invest in local community and economic development, further stimulating economic growth and job creation – also at no cost to the federal government.

Continued Restrictions on RUS' Ability to Make Baseload Generation Loans

Unfortunately, the Farm Bill did not address the pressing issue of much-needed lending for baseload generation. Due to decisions at the Office of Management and Budget over the last few years, RUS is prevented from making loans for coal or nuclear baseload generation facilities. Feeling pressure from parts of its leadership who see coal and nuclear generation as harmful to the environment, Congress did not resolve this situation in the Farm Bill. Today, RUS still cannot make these essential baseload loans. However, Congress continues to extend subsidies for all generation plants to IOUs and municipal utilities through the tax code.

Funding for RUS “Electric Loan Program” and “Guaranteed Underwriter Program”

Total RUS “Electric Loan Program” loan levels were set at \$6.6 billion in the FY 2009 Omnibus Appropriations bill. The USDA “Guaranteed Underwriter Loan Program” did not receive funding in the FY 2009 Omnibus Appropriations bill, even though it is authorized at \$1 billion loan levels. For FY 2010, President Obama’s budget framework recognizes that USDA focuses on providing financing needed to help improve utilities and infrastructure in rural America. However, the Administration’s detailed budget with proposed funding levels for specific programs is not yet available. Congressional appropriators are going ahead with hearings to set funding levels.

NRECA Urges Members of Congress to:

- **Support** \$6.6 billion for the “Rural Electric Loan Program.”
- **Support** \$1 billion for the “Guaranteed Underwriter Loan Program.”
- **Support** restoration of the RUS generation program, which has been shelved while tax benefits continue to flow to investor-owned and municipal utilities