

October 14, 2003

Mr. Keith Collins, Chief Economist  
U.S. Department of Agriculture  
Room 112-A, Whitten Building  
1400 Independence Ave., SW  
Washington, D.C. 20250-3810

**Re: Section 9006 Renewable Energy Systems & Energy Efficiency  
Improvements Program**

Dear Mr. Collins:

The undersigned organizations are writing to you to offer several suggestions to the U.S. Department of Agriculture for next year's Section 9006 Renewable Energy Systems and Energy Efficiency Improvements Program. During the last six months many of our organizations have either observed the Department's "on the ground" implementation of the program, or directly helped with the application process. We have collected information and received feedback from farmers and rural small businesses, commodity organizations, renewable energy and energy efficiency equipment manufacturers, utilities, and other direct and indirect participants in the program. This information forms the basis for the recommendations that we make below, which we hope will assist the Department's process of revising the grant and loan guidelines for the 9006 program this fall. Good rules beget good programs, and Section 9006 is a cost-effective tool for promoting important energy and agricultural interests.

In this letter we are recommending six improvements to the 9006 grant and loan program for next year. These recommendations include:

- Reduce the minimum grant and loan thresholds;
- Streamline the application requirements for smaller projects;
- Expand the scope and timing of program outreach;
- Lengthen the application time to at least 16 weeks;
- Allow in-kind contributions;
- Expand project eligibility to include residences associated with farms, ranches and rural small businesses.

These suggestions will strengthen the program and encourage more applications for both renewable energy projects and especially energy efficiency improvements, which received only about five percent of the total funds awarded in FY 2003.

## **Reduce the Grant and Loan Level Thresholds**

We recommend that the Department lower the minimum grant and loan limits from the current \$10,000 level. Reducing the minimum amounts will increase program opportunities for farmers and rural small businesses. The 2003 NOFA minimum grant level of \$10,000 meant that the minimum project size had to be \$40,000 (because the grant could not exceed 25% of the project's cost). This limit created a barrier to many projects on smaller farms and ranches, since many good projects cost less than \$40,000. A lower minimum grant and loan size will increase the availability of the Section 9006 incentives for this applicant pool.

As an example of how the FY 2003 grant limit unintentionally restricted the number of energy efficiency project applications, the Department's guidelines also required a minimum 15% annual energy savings and a maximum payback period of 11 years.<sup>1</sup> These conditions meant that farms had to have an annual energy bill (excluding vehicle fuel) of at least \$24,240 to be eligible for the \$10,000 minimum grant amount.<sup>2</sup> Many farms do not have such large energy bills.<sup>3</sup> Reducing minimum grant and loan size would increase program opportunities, especially for applicants interested in making energy efficiency improvements. Therefore, we suggest a minimum grant request level of approximately \$3,000 and a minimum loan request level of approximately \$6,000. These levels will increase the number of applications of energy efficiency projects and will make the program more available to a range of farming and rural small business activities.

As a related matter, one of the statutory requirements for the Section 9006 program is that applicants must demonstrate financial need. Yet the "Leveraged Funds" criterion has the effect of undercutting this objective by awarding fewer points to those applicants requesting the maximum federal funding (25%) for their projects. Since this criterion unfairly penalizes applicants with the greatest financial need, we recommend that the Department delete this criterion.

## **Streamline Application Requirements**

Streamlining the application requirements for smaller projects would help to reduce the transaction costs of smaller grants and loans, and would more closely tailor application size and requirements to the scope of the project and the amount of the grant/loan request. This would reduce the burden on both smaller applicants and on the Department.

Accordingly, we recommend revising the requirement for a feasibility study for smaller (below \$100,000) renewable energy projects. The depth and detail of the feasibility study should be commensurate with the size of the project. Many aspects of "standard" projects will be apparent to reviewers who are familiar with both the technology and the local conditions. In addition, the Department should issue guidance on what qualifies as a feasibility study. We

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<sup>1</sup> 68 Fed. Reg. 17009, 17012 (April 8, 2003).

<sup>2</sup>  $(\$40,000 \text{ (minimum project size)} / 11 \text{ years} = \$3636 \text{ (minimum return on investment)}) / 0.15 \text{ (annual energy savings)} = \$24,240$ .

<sup>3</sup> For example, only Wisconsin dairy farms with over 500 cows would typically have power bills this high, yet fewer than 1% of the 15,000 dairy farms in the state are this large.

understand that the Department posted some guidance on feasibility studies on its website, but that information was not easy to locate.

We also recommend that the Department relax the requirements regarding documentation of financial need and the reporting requirements for smaller projects of \$100,000 or less. Documentation of financial need generated a significant amount of work for many applicants. The reporting requirements for grant recipients also are disproportionately high for applications involving smaller projects.

As a related matter, we recommend that the Department streamline application requirements for energy efficiency and renewable energy projects that involve the installation of “off-the-shelf” equipment. The Department could limit these streamlined application requirements to smaller projects using designated equipment with known energy efficiency operation characteristics (e.g., dairy refrigeration and pumping equipment) or specific renewable energy equipment. The Department could implement this change by using a shorter application form and reduced back-end performance reporting requirements. In many cases, meeting the qualifying criteria for such projects would eliminate the need for a feasibility study.

As an example of how streamlined requirements might work for off-the-shelf equipment, consider if someone wanted to install a small, commercially-available renewable energy system that was not going to produce power for sale (e.g., a small wind turbine, a solar hot water system, a set of solar-powered irrigation pumps). That applicant would need to provide only the following information on a short 3-page application:

- project description
- equipment manufacturer, distributor and installer (include product literature)
- projected annual energy generation or displacement (information provided by manufacturer or distributor based on local conditions)
- planned use of energy generated (e.g., to heat barn, to heat water)
- projected simple payback
- statement of eligibility
- verification of matching funds (lending commitment or statement showing sufficient liquid assets)
- project budget and timeline

These more limited requirements would eliminate much of the technical analysis and several of the detailed project description requirements.

Streamlining the application requirements in the several ways listed above would make Section 9006 incentives more accessible to everyone and would improve the response rate from those seeking funding for efficiency improvements.

### **Expand Outreach Efforts**

USDA Rural Development should expand both the timing and scope of its outreach efforts to increase program awareness and incentive opportunities. First, the Department should initiate its program outreach efforts as soon as possible this autumn and winter, and definitely

before the Department issues the new guidelines. Extensive and early outreach, especially coordinated with state agencies, farm organizations and other interest groups, will help all potential applicants by giving them time to determine whether renewable energy or energy efficiency improvements are financially and technically viable before the application period begins. The Department also should make available as many of the application forms as possible during the outreach period.

Second, the Department should expand the scope of its outreach to a broad range of stakeholders. In addition to working with farm organizations and hosting community meetings, the Department's staff should reach out to other stakeholders, including energy efficiency and renewable energy equipment manufacturers and distributors, banks and other farm lending agencies, business associations, RC&D's and local economic development agencies. In addition, the Department should engage the Cooperative Extension Service in each state to serve as additional front-line representatives of the program. Further, the Department should work to increase geographical diversity among project applicants. A small grant to each state's Rural Development office would provide financial support for these outreach efforts.

### **Lengthen Application Time**

We recommend at least a four-month application time period for the Section 9006 program. We learned from many potential applicants that the 10-week application window for the FY 2003's NOFA was too short a period for many of them to prepare and submit the complex application to the Department, particularly because it fell during the spring planting season. Many of them could not organize a new renewable energy project, arrange for the 75 percent matching funding, conduct a feasibility study, and complete all of the other necessary application requirements and paperwork in the 10-week period. Consequently, the short application period dissuaded many potential grant recipients from applying to the program. (Given these facts, time is of the essence for the Section 9006 rulemaking.)

### **Allow In-Kind Contributions**

We recommend that the Department allow in-kind contributions to count towards the matching funds requirement. Many small producers would like the opportunity to use donations of valuable services, equipment, and other resources from others in the community. Also, since the leveraging requirement is a hurdle for small producers, allowing in-kind contributions to count towards the applicant's portion of a project cost will reduce this barrier.

Although we realize that placing a value on in-kind contributions could create a challenge for the Department, the agency already allows in-kind contributions in other Rural Business Service programs. For example, "[i]n kind contributions as defined at 7 CFR part 3015 subpart G can be used as matching funds. Examples of in-kind contributions include volunteer services furnished by professional and technical personnel, donated supplies and equipment, and donated office space."<sup>4</sup> This guidance from the Value-Added Producer Program and related regulations<sup>5</sup>

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<sup>4</sup> Notice of Funds Availability (NOFA) Inviting Applications for the Value-Added Agricultural Product Market Development Grant Program, 68 Fed. Reg. 52565 (Sept. 4, 2003).

could be used as models for the Section 9006 program. The Department also could narrowly tailor the requirement by narrowly defining what qualifies as in-kind contributions.

As a related point, the FY 2003 NOFA awarded 10 points for projects managed by a qualified third party operator. This preference penalizes applicants who can demonstrate that they are qualified managers. Further, many smaller renewable energy systems are relatively maintenance-free and within the capabilities of most farmers/ranchers. The Department should, therefore, eliminate this criterion.

### **Expand Program Eligibility to Residences**

Section 9006 should apply to energy efficiency improvements and renewable energy projects that provide benefits to residences *associated with* the farm/business operations. Doing so will provide added value by encouraging farmers to become more energy self-sufficient.<sup>6</sup> To avoid pitfalls, the Department could limit the amount of the grant or loan request that can be used for residences. For instance, it could require that the benefit to the residence be ancillary and that the majority of the project funding be used for non-residential energy efficiency improvements or renewable energy production.

### **Increase Applications for Energy Efficiency Improvements**

More generally, we urge the Department to encourage more applications for energy efficiency projects under Section 9006. Energy efficiency projects received only about five percent of the FY 2003 funds for the Section 9006 program, largely because few energy efficiency projects applied for grants. Most of the recommendations in this letter, while benefiting all applicants, should increase the number of energy efficiency project applications. We also encourage the Department to examine and incorporate other ways of further expanding energy efficiency investment opportunities so that there is a greater balance between the funding for renewable energy and the funding for energy efficiency.

## **CONCLUSION**

We appreciate the U.S. Department of Agriculture's efforts to implement the Section 9006 program, and we thank you for considering these recommendations for the Fiscal Year 2004 rulemaking. Please note that many of our organizations intend to provide additional comments and suggestions to the Department on this important program.

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<sup>5</sup> 7 C.F.R. § 3015.52(e) provides detailed requirements regarding documentation of in-kind contributions; 7 C.F.R. § 3015.52(f) provides special standards and procedures for calculating these contributions, and 7 C.F.R. §§ 3015.53-3015.55 provides detailed requirements regarding valuation of donated in-kind services, supplies, equipment, etc.

<sup>6</sup> The USDA Rural Development electricity and telephone loan program is responsible for approximately \$300 million dollars in loan funding to rural electric co-operatives, largely to improve remote service and extend electric power to new customers. This program highlights both the importance of allowing the Section 9006 program to provide benefits to residences and the opportunity for the Department to couple its mission of extending modern services to rural areas with the new charge of promoting rural renewable energy. As the costs of small renewable generation technologies continue to drop, they become much more economically practicable for residential and commercial usage. In many cases, the high cost and comparatively low reliability of distant rural grid extensions makes energy efficiency and off-grid generation the least-cost alternatives.

Please contact Charles Kubert at (312) 795-3716 if you have any questions or comments about this letter. We look forward to reviewing the proposed rule for this program.

Very truly yours,

American Corn Growers Association  
American Council for an Energy-Efficient  
Economy  
Bergey Windpower  
Center for Rural Affairs  
Citizens Action Coalition of Indiana  
Climate Solutions  
Consortium for Sustainable Agriculture  
Research and Education  
Dakota Resource Council  
Environmental Advocates of New York  
Environmental and Energy Study Institute  
Environmental Law and Policy Center  
Great Lakes Solar Energy Industries  
Association  
Harvesting Clean Energy Network  
Hoosier Environmental Council  
Illinois Stewardship Alliance  
Institute for Agriculture and Trade Policy  
Institute for Local Self Reliance  
Iowa Environmental Council  
Iowa RENEW  
Iowa Sustainable Energy for Economic  
Development Coalition  
Kansas Rural Center  
Land Stewardship Project  
Midwest Energy Efficiency Alliance  
Minnesotans for an Energy-Efficient  
Economy  
Minnesota Project  
Mississippi Alternative Energy Enterprise  
National Catholic Rural Life Conference

National Corn Growers Association  
Natural Resources Defense Council  
Nebraska Wildlife Federation  
North Dakota Sustainable Energy for  
Economic Development  
Northwest Sustainable Energy for  
Economic Development  
Ohio Environmental Council  
RENEW Wisconsin  
Renewable Fuels Association  
Sustainable Agriculture Coalition  
Utah Clean Energy Alliance  
Washington Association of Wheat Growers  
Western Organization of Resource Councils  
Windustry

cc: William F. Hagy (USDA)  
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Phil Dougherty (USDOE)