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**Statement to  
the Senate Energy and Natural Resources Committee  
United States Senate**

**Hearing on the Department of Energy Loan Guarantee  
Program  
Thursday, February 12, 2009**

## **The Department of Energy Loan Guarantee Program**

I am pleased to provide information about a program of great importance to the members of the National Rural Electric Cooperative Association -- the Department of Energy's (DOE) Loan Guarantee Program. The Loan Guarantee Program provides a much needed commitment from the federal government to join with the electric utility industry in updating the nation's electric generation infrastructure with technologies that avoid greenhouse gas emissions, including nuclear, carbon capture and sequestration (CCS) and renewable technologies. I commend the Committee for their examination of the status of this vital program, and will comment on a specific aspect that is limiting the ability of electric cooperatives to participate. Specifically, the DOE loan guarantee program currently discriminates against joint ownership structures commonly utilized by electric cooperative, municipal and investor-owned utilities.

### **Background on Electric Cooperatives**

NRECA is the national service organization representing the interests of electric cooperative utilities and their consumers. In addition to advocating consensus views on legislative and regulatory issues, NRECA provides health care, pension, financial investment and many other programs for its members.

Electric cooperatives are not-for-profit, private businesses governed by their consumers (known as "member-owners"). Today, 930 electric cooperatives serve 42 million consumers in 47 states. Cooperatives are a unique sector of the electric utility industry, serving an average of only 7 consumers per mile compared with the 35 customers per mile served by investor-owned utilities (IOUs) and 47 customers per mile served by municipal utilities. To put this in greater perspective, electric cooperatives serve only 12% of the population -- but maintain 42% of the nation's electricity distribution lines covering three quarters of the land mass.

### **Electric Cooperatives Balance Increased Demand with Greenhouse Gas Reductions**

The electric cooperative sector is growing at twice the rate of the other utility sectors because people are moving to co-op service areas. The U.S. Energy Information Administration forecasts that by 2030, demand for electricity will be 28 percent higher, the equivalent of adding four Californias to the power grid. In some regions, demand will soon outstrip supply, according to the North America Electric Reliability Corporation.

At the same time electric cooperatives are meeting these demands, co-ops are deploying technologies that will help to meet environmental goals. Renewable resources, efficiency investments, technologies to capture and store carbon from coal plants and nuclear energy are all equally important to meeting demand and reducing greenhouse gas emissions. These technologies must all be made available in order to fulfill our mission of providing affordable and reliable electricity, and to modernize the nation's infrastructure.

The DOE Loan Guarantee program is more important than ever in this time of scarce lending. Despite the fact that the program has been severely underfunded, electric cooperatives have pending applications in partnership with others to finance nuclear projects. Those projects are

already creating jobs that will ramp up in the near term. Electric cooperatives have also initiated millions of dollars in renewable electricity projects under the Clean Renewable Energy Bond program, have been recognized by the Federal Energy Regulatory Commission as national leaders in deploying “smart meters” and are demonstrating carbon capture technologies. Cooperatives are working in all of these areas because no stone can be left unturned to both meet increasing demand for electricity and achieve environmental goals.

### **The DOE Loan Guarantee Program Discriminates Against Joint Ownership**

Electric cooperatives were pleased to see that the Senate-passed stimulus bill includes an additional \$50 billion in loan guarantee authority for DOE. This additional authority appropriately reflects the magnitude of anticipated electricity demand, and I urge conferees to maintain the Senate authority level. But there is an equally critical issue yet to be addressed that I would like to bring to the attention of this Committee. Under DOE’s current interpretation of the program, electric cooperatives and other utilities are severely hampered in their ability to tap the program, whether it be for nuclear, clean coal or renewable technologies.

By way of example, one electric cooperative and one public power system that distributes power to electric cooperative consumers have applications pending before the Department of Energy for loan guarantees for nuclear projects, and more electric cooperatives are expected to seek to tap this program in the near future. Yet, late in 2008, DOE effectively disqualified loan guarantee applicants with traditional “undivided ownership” interest structures (i.e., those entities jointly owning a project, but financing each ownership interest independently). The traditional undivided ownership interest structure is used commonly for large, capital intensive projects such as base load power plants in order to effect joint ownership of a single plant among investor-owned, municipal and cooperative utilities. Such arrangements permit utilities with adjacent service territories to share risks and size generation resources appropriately to current and future demand. DOE’s interpretation of the loan guarantee statute to disallow this structure is unnecessarily restrictive and will disqualify many utilities, including electric cooperatives, municipal utilities and investor-owned utilities from seeking loan guarantees for nuclear or other generation resources under this very common structure.

DOE's current interpretation of the statute severely limits the effectiveness of the guarantee program in a manner that was not intended by Congress. The federal government, through the U.S Department of Agriculture Rural Utilities Service has been accepting “undivided ownership” structures for decades. As a practical matter, DOE's interpretation will make the DOE loan guarantee program unavailable for many new power plants. If these projects are to move forward without a DOE loan and with today’s scarce private lending at high rates, the price tag for the new power projects -- and thus their costs to ratepayers -- could nearly double.

Electric cooperatives submitted preliminary applications in September of 2008 seeking loan guarantees under a traditional undivided ownership interest structure, and paid a non-refundable \$200,000 fee. DOE initially informed these applicants that they were highly ranked in the queue for funds, but surprised them in December of 2008 by asserting that traditional undivided ownership interest structures were unacceptable. This assertion came just four days prior to the deadline for final applications. Co-ops and other applicants, with much time and money already

invested in joint venture projects, had little choice but to move ahead and pay an additional, non-refundable \$600,000 fee for submitting the final application. The applications have been submitted in hopes that DOE's interpretation can be corrected to accommodate undivided ownership interest structures.

The payment of this fee demonstrates that co-ops are committed to critical new capacity with low or zero greenhouse gas emissions. I urge Congress and DOE to demonstrate that they share this commitment and to develop a solution as soon as possible this year that will prevent discrimination against joint ownership structures, keep projects moving forward and limit the need for private financing that will be costly for ratepayers. Time is of the essence in resolving the issue, as applicants are responding to an unanticipated, adverse decision by DOE despite being far along in project spending and commitments.

### **Conclusion**

I commend the Senate Energy and Natural Resources Committee for this hearing examining the DOE Loan Guarantee program. The program is increasingly important to electric cooperatives as we take on the challenge of meeting increased demand while doing our part to reduce greenhouse gas emissions. I look forward to the opportunity to work with this Committee to overcome the obstacles to participation by undivided ownership interest structures in the DOE loan guarantee program.