

**Testimony of the Honorable Glenn English, submitted for the record to
the Committee on Ways and Means for
a Hearing on Energy Tax Incentives
Driving the Green Job Economy
Wednesday, April 14, 2010**

I am pleased to provide testimony about a renewable energy incentive that is important to the members of the National Rural Electric Cooperative Association as it is for its job creation -- the Clean Renewable Energy Bond (CREB). I would like to thank the Committee for making a critical improvement to the program in H.R. 2847, the "Hiring Incentives to Restore Employment Act." This new law establishes a "direct payment" option that allows CREB issuers to receive a direct payment from Treasury that is designed to reimburse the issuer for 70% of the projected interest cost on these bonds. This option has rescued the program from the negative impact of the recession on the market for tax credits, and assures that renewable projects -- and their associated jobs -- can move forward.

This improvement has made the CREB a much more efficient and effective means of financing renewable electricity projects for not-for-profit utilities. Now that it is attractive for issuers and buyers alike, I am urging Congress to provide for a significant new authorization of volume cap for electric cooperative and public power utilities.

Background on Electric Cooperatives

The National Rural Electric Cooperative Association (NRECA) is the national service organization representing the interests of cooperative electric utilities and their consumers. 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 perspective, electric cooperatives serve only 12% of the population -- but maintain 42% of the nation's electricity distribution lines. Cooperative revenue per mile averages only \$10,565, while it is more than six times higher for investor-owned utilities, at \$62,665 and higher still for municipal utilities, at \$86,302 per mile. In summary, cooperatives have far less revenue than the other electricity sectors to support a greater share of the distribution infrastructure. In addition, electric cooperative households generally have less income than the rest of the nation, with nearly half of the cooperative service territories suffering poverty rates that are higher than the national average.

These numbers illustrate why bringing power to rural areas is a costly endeavor, resulting in electricity prices that are sometimes higher in cooperative service territories than those served by the neighboring IOU. The key to success in bringing the most reliable and affordable power possible to these low density areas lies in the cooperative business model. The term "cooperative" has been described by Federal court decisions and IRS

rulings and pronouncements. The IRS requires that businesses adhere to the following guidelines to qualify for cooperative status:

- 1) Subordination of capital. Most benefits of the cooperative must remain with members. The cooperative is not to be operated for the primary purpose of paying a return on investment.
- 2) Democratic control by the members of the cooperative. Each cooperative is run by a board of directors elected by the entire cooperative membership. Votes are on a one member, one-vote basis.
- 3) Operation at cost. Costs must be fairly allocated to all members. Any revenue that is collected from members above what it is needed for the co-op is returned to all members on an equitable basis. In the case of electric cooperatives, net margins returned to members are referred to as “capital credits.”

To sum up these requirements, the cooperative’s benefits must flow to its member-owners. Any benefits received from the federal government, therefore, also flow to the cooperative’s consumers. Although most electric cooperatives are exempt from federal income tax, all electric cooperatives pay state and local property taxes, sales tax and payroll and excise taxes.

Electric Cooperatives and Alternative Energy

The need for electric utilities to develop all available renewable energy projects is urgent, both to reduce greenhouse gas emissions and because renewable portfolio standard mandates have been adopted by many states. Currently, renewable energy makes up almost 11 percent of the electricity provided by electric cooperatives. Almost all of this power is currently purchased from federal hydropower facilities, the market or through contracts with developers. Yet, electric cooperatives are ideally situated to develop and own renewable projects in their back yards. Those projects have not yet been fully realized because historically, electric cooperatives have not been able to directly utilize traditional tax incentives like the Production Tax Credit. Such incentives are essential to bring renewable generation - which remains two to ten times more expensive in capital cost per kWh than conventional resources - on line at a cost that is affordable for consumers.

The CREB incentive has created the conditions needed for electric coops to close the gap in developing renewable resources. Meanwhile, electric cooperatives are doing their part to bring large-scale renewable projects on line. Last year, 20 “generation & transmission” coops and four distribution coops serving consumers in 24 states formed the “National Renewable Cooperative” (“NRCO”), itself a not-for-profit cooperative. NRCO’s mission is to pool expertise so that the knowledge base of coops with experience in developing renewable energy will be available to all. Its goals are to serve as a clearinghouse for renewable resource development opportunities for coops, package development opportunities for evaluation by its members and aggregate renewable

energy request for proposals for members. With tools like the CREB, the NRCO will be able to help plan large-scale renewable generation projects for electric cooperatives across the country.

Experience with the CREB Program

I will now focus on our experience with the Clean Renewable Energy Bond program. The CREB was enacted in the 2005 Energy Policy Act. A volume cap of \$800 million was provided with \$300 million set aside for electric cooperatives. Electric cooperatives alone flooded Treasury with more than \$550 million in applications for 83 projects in 22 states. The program funded 78 electric cooperative projects and was well balanced across many technologies, including wind, biomass, landfill gas, hydropower and solar. The award size of cooperative projects ranged from \$120,548 to \$31 million. The electric cooperative set-aside worked well to ensure that cooperatives could build utility scale projects and the program would be balanced between electric cooperatives and government applications.

The volume cap posed a problem for the program. \$800 million was provided, yet Treasury received \$2.5 billion in applications in the first year. Electric cooperatives submitted more than \$550 million of those applications, but received only \$300 million in bond allocations due to a program size that was too small overall. An additional \$400 million, with \$150 million set aside for electric cooperatives, was provided under the Tax Relief and Health Care Act of 2006, but this still did not keep pace with applications for the program.

By contrast, there is no volume cap for the Production Tax Credit, or the Investment Tax Credit or tax grant provided under the American Recovery and Reinvestment Act of 2009 (“stimulus bill”). Attempting to address this disparity through meaningful program funding, the stimulus bill, combined with the Emergency Economic Stabilization Act of 2008 (“economic rescue bill”), added \$2.4 billion to the program, divided equally between electric cooperative, municipal utilities and non-utility government bodies. These bills also made a series of improvements to the program to make the bonds more marketable, such as the ability to strip the bond from the tax credit.

It is noteworthy that non-utility governmental bodies were also made eligible for significant allocations of “qualified energy conservation bonds” (“QECCBs”) under the two bills. QECCBs can also be used for renewable generation, as well as other green projects. Given the creation of the QECCB program, the CREB program can best deliver on the potential for large-scale renewable projects if it is set aside for not-for-profit coop and public power utilities, while non-utility governments appropriately focus on smaller, distributed projects through the QECCB program.

In 2009, electric cooperatives received nearly \$460 million in allocations of CREBs for projects in 13 states through the two bills. Moreover, Treasury is expected to issue a solicitation for co-op applications for an additional \$200 million in CREBs that remain unawarded. The attached map shows the distribution of CREBs in the aggregate across

the country, since program inception (attachment A). The attached pie chart shows the volume cap awards to coops for various renewable technologies, in the aggregate since program inception (attachment B).

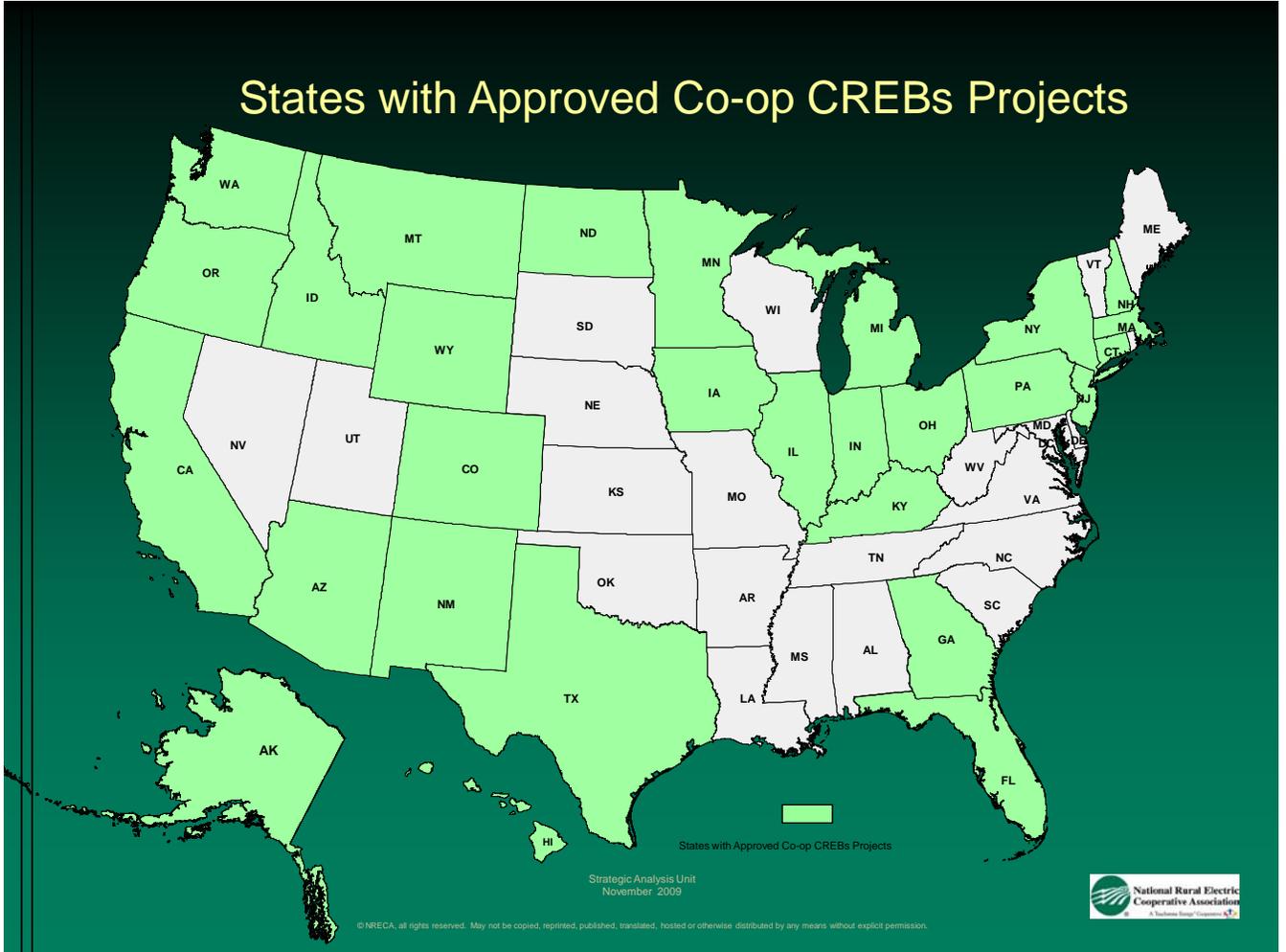
Despite the promise of significant new funding, the program hit a major snag -- the economic downturn. Treasury currently sets a tax credit rate based upon an index of BBB to A rated bonds; that rate is published daily on the Treasury's Bureau of Public Debt website. Yet a "one size fits all" tax credit rate cannot fit the circumstance of individual issuers with various financial ratings and market appeal. Moreover, the market for tax credits nearly collapsed, and potential CREBs buyers were demanding significant additional interest from issuers on top of the face value of the bond -- an effective interest rate of 8.5%! So, CREBs had already been allocated to "shovel-ready" projects and Treasury had verified the legitimacy of project applicants based upon an independent engineer's certification of the project feasibility. But the bonds could not be issued and the projects -- and related jobs -- were at a standstill. The attached map (attachment C) illustrates awards made to electric cooperative projects and jobs that were poised to be created.

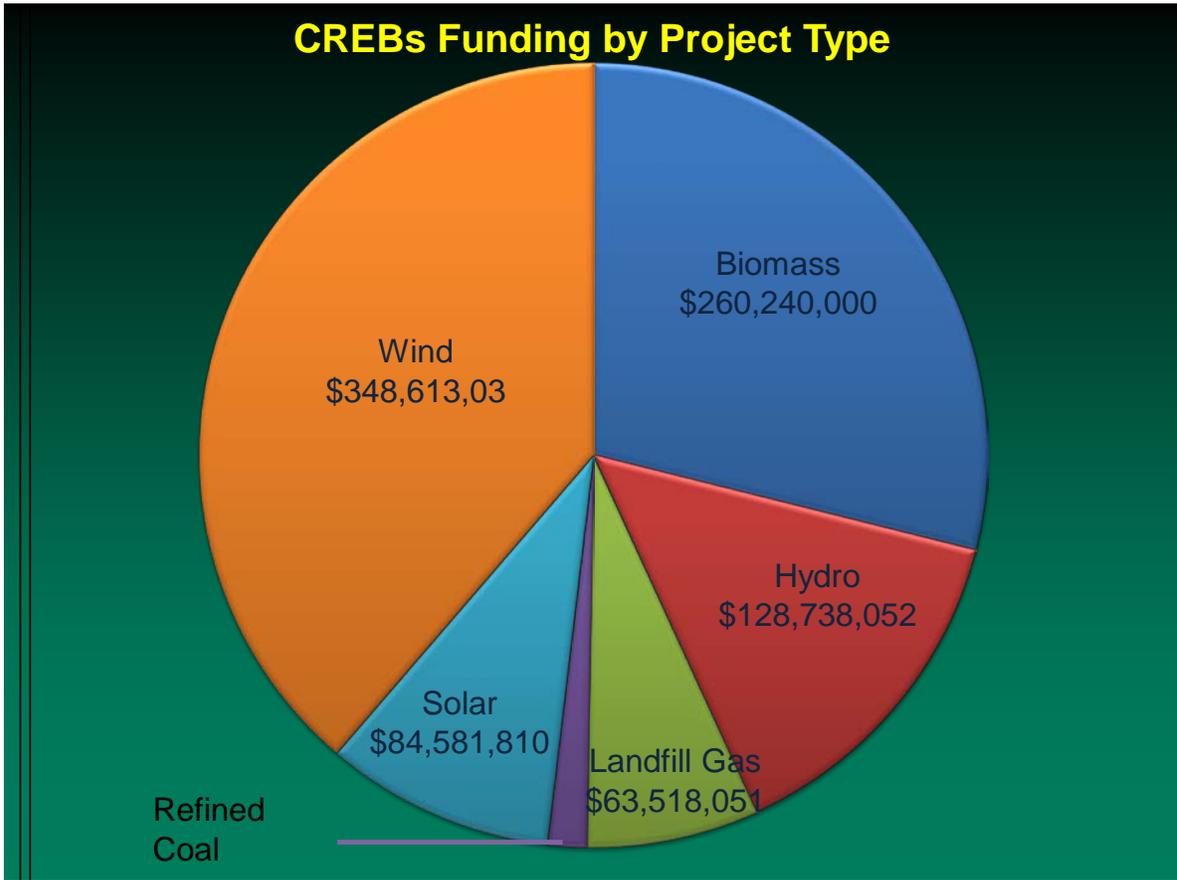
The newly enacted direct pay option rescues these projects and makes the program a solid success because there is a robust market for the bonds as there are many potential purchasers of taxable, interest-bearing bonds. Moreover, even in better economic times, "direct pay" will remain the preferred option from an issuer's standpoint because of its efficiency. Under the new option, a subsidy comes directly to the Issuer in the form of a check or deposit (generally provided by Treasury twice yearly when interest is paid) designed to cover approximately 70 percent of interest cost based upon Treasury's published rate.

Conclusion

I commend this Committee for its past and current bipartisan support of the Clean Renewable Energy Bond program, and urge the Committee to provide additional bond authority for the program of at least an additional \$3.2 billion dedicated solely to not-for-profit utilities, with \$1.2 billion set aside for electric cooperatives. The CREB incentive is the key to cooperatives realizing their goal of developing all available renewable generation resources affordably for their member-owners. We are pleased that the Committee has recognized the important role that not-for-profit electric cooperatives and their consumers will play in the nation's energy future with the CREB program, and look forward to working with you on future proposals that will shape energy policy.

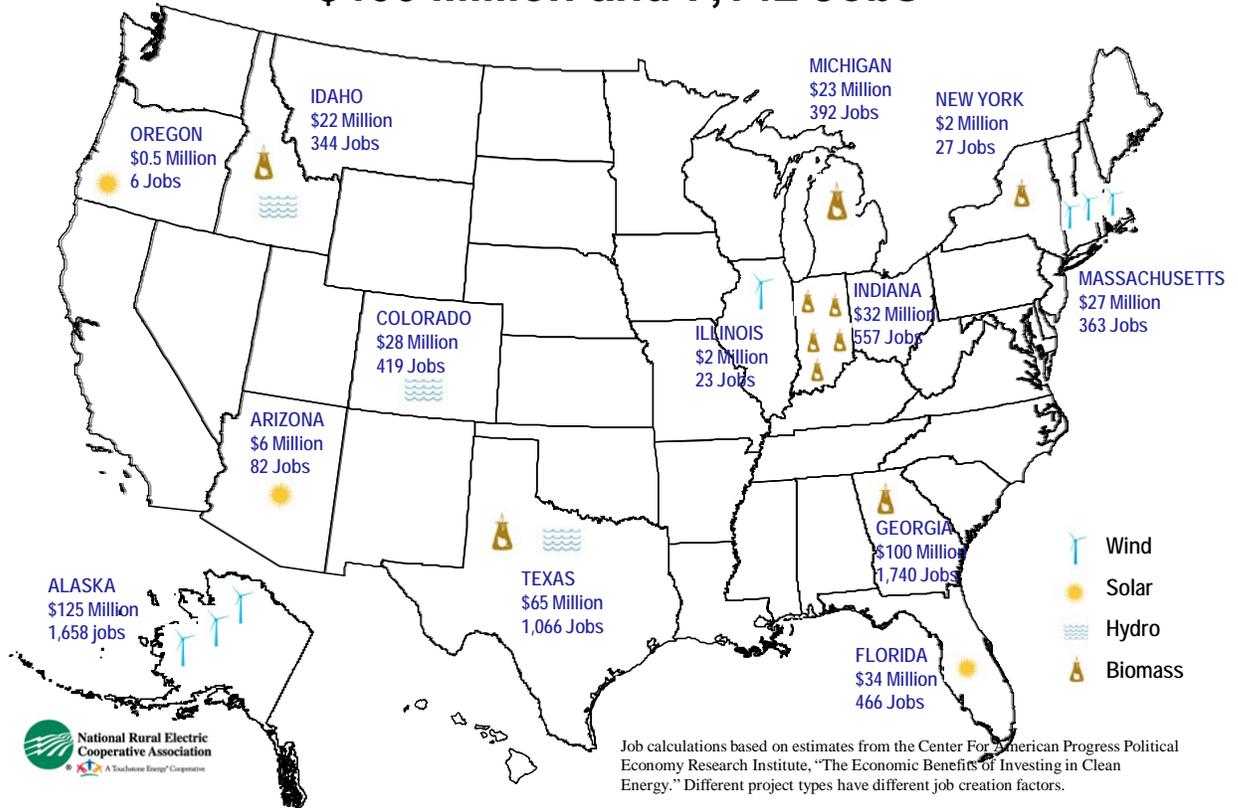
Attachment A





Electric Cooperative 2009 CREB Awards

\$466 Million and 7,142 Jobs



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