

Rural Energy Savings Program

Frequently Asked Questions

What are electric cooperatives? Electric cooperatives are the independent, not-for-profit electric utilities established in the New Deal to bring electricity to rural America. They are owned by their consumers and active in the communities they serve, ensuring that they are highly accountable to their consumers. Today, there are more than 900 electric cooperatives providing utility service to 42 million Americans in 47 states, operating under consumer-focused approach to business unique in the utility sector.

How will the program work? Individual co-ops or state-based groups of co-ops will apply to the Rural Utilities Service (RUS) of the US Department of Agriculture (USDA), to borrow money to fund local energy efficiency programs that meet RUS energy savings standards. Co-ops, in turn, use the money to make low-interest micro-loans to residences or small businesses that sign up for the voluntary program and that have a demonstrated ability to pay back the loans. Using established RUS loan procedures, cooperatives will receive loan funds only to reimburse for work as it is completed and as documentation is submitted to RUS. Electric cooperatives will pay back the federal loans from consumer loan payments on their electric bills within 10 years of making the consumer loan.

Trained contractors will conduct an energy audit to determine what sorts of energy efficiency improvements are warranted. Typical consumer loans will be \$1,500 to \$7,000, and will cover sealing, insulation, HVAC systems, heat pumps, boilers, roofs and other improvements that the utility has demonstrated to RUS will produce sufficient savings. Participating consumers repay the co-ops for the installation and material costs through a charge on their utility bills within not more than a 5-10 year window, and the energy savings from the upgrade will cover most, if not all, of the cost of the loan. After the loan is repaid, consumers will save hundreds of dollars annually.

What sort of track record/history do co-ops have with direct lending? Many electric co-ops have been lending money directly to their members for more than 75 years. Prior to the proliferation of hardware stores across rural America, the local co-ops were often the most convenient point of sale for rural residents to purchase major appliances. Frequently, these purchases were structured as low-interest loans repaid on utility bills – just as this program is structured. While the amount of direct consumer lending by co-ops has decreased as retail stores have expanded in rural America, the infrastructure and institutional knowledge remains.

Are co-ops appropriate stewards of the taxpayers' money? Yes. Since their inception, co-ops have borrowed extensively from the federal government to finance electric distribution, generation and transmission investments. The default rate on these loans has been so small in the past 20 years that USDA has actually made money on the loans in recent years. Under this rural energy efficiency improvement program, every dollar loaned to co-ops by the federal government and re-loaned to consumers would be fully repaid within the ten-year period permitted for the consumer loan. We can have confidence that this money will be repaid as promised because of co-ops extraordinary track record of repaying government loans as promised. The loans are secured using cooperative assets as collateral. In the very unlikely event of a default, USDA has a lien on these assets.

Are there programs like this currently operating? Most co-ops have the necessary experience, infrastructure and incentive to implement this program. A few, however, are leading the way. This program was modeled in part on an operational program developed by Midwest Energy in Hays, Kansas, known as How\$mart™. At the planning level, South Carolina has a fully developed program concept that is ready to go as soon as it gets funding, while other states are close. Because low-cost funding has not been available to this point, co-ops have not been able to implement a large-scale, comprehensive energy efficiency improvement program.

For example, New Hampshire's electric cooperative currently runs an energy efficiency on-bill financing program for small-businesses, which functions exactly the way co-op programs would under this proposal. New Hampshire wants to expand its program to residences, but access to capital at reasonable rates has prevented the co-ops from doing so. This proposal would make available that upfront capital.

How large of a program is this? Can it be rolled out nationwide? We are proposing that RUS issue \$4.9 billion in loans. Co-ops across the country will be able to participate in this program. Many cooperatives will be able to ramp up quickly, because this program will build on initiatives already operating. The RUS will use its existing loan procedures to administer the loans but the agency has a serious staff shortage which is addressed by adding funds to support 10 additional staff.

Who will perform the energy audits and efficiency upgrades? Participating co-ops already have or will hire experienced contractors to perform energy audits. Cooperatives will establish a list of contractors who are willing to perform the work and have that work inspected by auditors before they are paid. The simple fact that the cooperatives are accepting the responsibility for the repayment of consumer loans is a serious incentive to ensure contractors do quality work for the consumers who own the cooperative. Funds will be made available to train a qualified cooperative audit and administrative workforce. Co-ops have deep local relationships and an active community presence, enabling them to identify trustworthy contractors and hold them accountable.

How many jobs will this create? By the end of 2012, the program will be supporting nearly 26,000 jobs that would not be present in the economy if not for this program. These jobs will grow in number each year while efficiency improvements are being made in consumer homes and businesses and then be sustained over the long-term by the economic activity generated by the energy savings from these investments thereafter.

How many homes can be expected to participate in the energy efficiency improvement program?
1.6 million households will be able to participate in the program if the average consumer loan is \$3,000.
1.1 million households will be able to participate in the program if the average consumer loan is \$4,500.

What is the profile of a typical co-op customer? The typical co-op member is poorer than the national average and more likely to live in an older home or a mobile home which are less energy efficient. As a result, co-op customers have particularly acute energy efficiency needs, but their upfront barriers to making energy efficiency improvements are even higher.

What's in this for the consumer? What's in this for the co-ops? What's in this for Uncle Sam?

- Participating consumers will receive long term energy savings, eventually saving them hundreds of dollars a year, while eliminating the upfront capital and financing costs they would face in the private market. Consumers also get the quality of life benefit of living in a better insulated, more comfortable home or a more profitable business.
- The co-ops get to save their consumers money while defraying the need to purchase expensive, new electricity generation capacity. This program makes available the upfront capital to implement a consumer efficiency program at a far lower cost than cooperatives would be able to obtain on the open market. The lower interest cost lowers an important cost barrier to consumers.
- The Federal Government achieves substantial carbon reductions by reducing energy consumption in carbon-intensive parts of the country; creates tens of thousands of construction jobs annually at a time of recession; and helps more than one million homeowners achieve long term energy and cost savings to their home and offset the need for imported oil and natural gas. This program costs the federal government just \$1,000 for every \$5,000 of efficiency improvements installed, while taking advantage of the co-ops rapid deployment and management and verification capacity. \$4.9 billion in consumer efficiency upgrades will be leveraged by less than \$1 billion in appropriations.