



1414 Prince Street  
 Suite 200  
 Alexandria, Virginia 22314  
 Telephone: 703,299,8800  
 Facsimile: 703,299,6708

December 19, 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 and Energy Efficiency  
 Improvements Program

Dear Mr. Collins:

The National Association of State Energy Officials (NASEO) offers a number of suggestions to the U.S. Department of Agriculture for next year's Section 9006 Renewable Energy Systems and Energy Efficiency Improvements Program. During the past year, the State and Territory Energy Offices and NASEO's Agriculture and Rural Development Task Force have both observed the implementation of the program, and directly aided constituents in the application process.

The State Energy Offices experience with the program and with similar programs forms the basis for the recommendations that we make below. We hope our suggestions will assist USDA in revising the grant and loan guidelines for the 9006 program. NASEO strongly believes that the Section 9006 program is a cost-effective tool for promoting important energy and agricultural projects.

NASEO represents the energy offices in the states, territories, and District of Columbia. NASEO members are uniquely qualified to offer advice on this program since they operate a wide range of energy efficiency and renewable energy programs at the state level, and have for a quarter of a century. This expertise offers them the knowledge of what works and what does not work. NASEO and its members want to offer our assistance to make sure section 9006 succeeds.

NASEO recommends the following improvements to the program, including:

- 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, and
- Allow in-kind contributions.

NASEO believes 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.

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### Reduce the Grant and Loan Level Thresholds

We strongly recommend that USDA 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, USDA'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 for 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 USDA delete this criterion.

### Streamline Application Requirements

Streamlining the application requirements for smaller projects would help to reduce the transaction costs for 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 USDA.

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. The guidance posted on the USDA website regarding feasibility was not easy to locate.

We also recommend that USDA 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.

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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.

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. USDA 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. USDA 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, USDA 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 interested State Energy Offices, farm organizations and other 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. Broad dissemination of the application forms during the outreach period should be encouraged.

#### 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.

Allow In-Kind Contributions

NASEO recommends that USDA 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. And, 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 USDA, 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> 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. USDA should, therefore, eliminate this criterion.

NASEO greatly appreciates USDA's efforts to implement the Section 9006 program, and we thank you for considering these recommendations for the Fiscal Year 2004 rulemaking. If you have any questions about these recommendations, please contact NASEO's Agriculture and Rural Development Task Force Chair, Sharon Tahtinen, at (515) 281-7066.

Best Regards,



Sara Ward, Chair  
NASEO

cc: Sharon Tahtinen  
Mitch Beaver  
David Terry  
Jeff Genzer

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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).

<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.