HEARING TO REVIEW H.R. 4785, THE RURAL ENERGY SAVINGS PROGRAM ACT

HEARING

BEFORE THE

SUBCOMMITTEE ON CONSERVATION, CREDIT, ENERGY, AND RESEARCH

OF THE

COMMITTEE ON AGRICULTURE HOUSE OF REPRESENTATIVES

ONE HUNDRED ELEVENTH CONGRESS

SECOND SESSION

MAY 12, 2010

Serial No. 111–50

Printed for the use of the Committee on Agriculture
agriculture.house.gov

U.S. GOVERNMENT PRINTING OFFICE
56–973 PDF WASHINGTON : 2010

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HEARING TO REVIEW H.R. 4785, THE RURAL ENERGY SAVINGS PROGRAM ACT

WEDNESDAY, MAY 12, 2010

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON CONSERVATION, CREDIT, ENERGY, AND RESEARCH,
COMMITTEE ON AGRICULTURE,
Washington, D.C.

The Subcommittee met, pursuant to call, at 10:08 a.m., in Room 1334 of the Longworth House Office Building, Hon. Tim Holden [Chairman of the Subcommittee] presiding.

Members present: Representatives Holden, Herseth Sandlin, Dahlkemper, Markey, Schauer, Kissell, Boccieri, Bright, Murphy, Peterson (*ex officio*), Pomeroy, Minnick, Goodlatte, Moran, Smith, Luetkemeyer, Thompson, Cassidy, and Roe.

Staff present: Claiborn Crain, Nona Darrell, Tony Jackson, Clark Ogilvie, Anne Simmons, Debbie Smith, Rebekah Solem, Patricia Barr, Josh Maxwell, and Sangina Wright.

OPENING STATEMENT OF HON. TIM HOLDEN, A REPRESENTATIVE IN CONGRESS FROM PENNSYLVANIA

The CHAIRMAN. This hearing of the Subcommittee on Conservation, Credit, Energy, and Research to review H.R. 4785, the Rural Energy Savings Program Act will come to order. I would like to welcome our witnesses and guests to today's hearing to review H.R. 4785, the Rural Energy Savings Program. This Subcommittee, and the House Agriculture Committee as a whole, has worked to expand renewable and alternative sources of power and discover new technologies to improve the efficiency and sustainability of existing power generation across rural America. I am encouraged by the efforts of Congressman Clyburn, a long time friend of rural America, to assist consumers in rural communities to further improve energy efficiency and generate a significant number of new jobs.

Yesterday marked the 75th anniversary of the creation of the Rural Electrification Administration. On May 5, 1935, President Franklin D. Roosevelt signed an Executive Order to create the REA and paved the way for electric cooperatives to transform the way rural America works and lives. Today's rural electric cooperatives are innovative leaders in improving our nation's energy infrastructure. It is important that we use every resource available to help encourage their work in advancing energy efficiency and renewable energy technology. I look forward to today's expert testimony and the opportunity to listen, learn, and question those on the forefront of this issue.

[The prepared statement of Mr. Holden follows:]

PREPARED STATEMENT OF HON. TIM HOLDEN, A REPRESENTATIVE IN CONGRESS FROM PENNSYLVANIA

I would like to welcome our witnesses and guests to today's hearing to review H.R. 4785, the Rural Energy Savings Program Act.

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I look forward to today's expert testimony and the opportunity to listen, learn and question those on the forefront of this issue.

The CHAIRMAN. The chair now recognizes the Ranking Member, Mr. Goodlatte, from Virginia.

OPENING STATEMENT OF HON. BOB GOODLATTE, A REPRESENTATIVE IN CONGRESS FROM VIRGINIA

Mr. GOODLATTE. Thank you, Mr. Chairman. I appreciate you holding this hearing today on H.R. 4785, the Rural Energy Savings Program Act. We should all be conscious of our energy use and look for new ways to conserve. Energy efficiency is an important step in an overall energy plan, and it must be combined with an overall energy policy that will meet increasing demand, reduce energy prices, and be environmentally responsible. Congress will hopefully continue to look at policies that will harness our domestic energy resources to meet increased demand such as clean coal technologies, clean burning natural gas, oil, and nuclear energy. The bill we are reviewing today addresses a piece of the energy efficiency puzzle by offering low interest loans through rural electric cooperatives to its customers for energy efficiency upgrades to their homes.

This may be a workable approach. However, I am very concerned about supporting any legislation with a billion dollar authorization without determining how the bill will be paid for. Within that funding, I would also like to examine where these dollars will be spent. Rural electric cooperatives and the RUS have had a successful relationship with lending programs, but we have added additional lending to a customer with a potentially higher credit risk. I must also note that close to ¼ of the funding in this bill will be used toward grants.

I appreciate the opportunity to review this legislation so we may gain a better understanding of how this program would operate. Our rural electric cooperatives serve a growing number of customers and face numerous challenges in serving their energy needs. Electric cooperatives have had a successful relationship with the RUS and the electric lending program allowing for the con-

struction and operation of electric generation plants, electric transmission lines and energy conservation measures. Unfortunately, in the past few years our Democratic leadership in the House and our current Administration have chosen a path to deny the tools our co-ops needs to meet the energy needs of rural America.

The 2008 Farm Bill included a provision that would have allowed lending for new base load generation projects. This provision was stripped by Speaker Pelosi. As a result, rural electric cooperatives are prevented from accessing Rural Utilities Service financing for any type of base load electric generation. In other words, base load generation from the following sources, nuclear, natural gas, and clean coal technologies are difficult if not impossible to finance through the program. Additionally, President Obama's recent proposal calls for a $2.5 billion cut to the electric loan program as well as restricting any lending for improving or expanding natural gas plans.

These energy policies will make it increasingly more difficult to provide homes, schools, businesses, and farms across rural America with affordable electricity. Mr. Chairman, again, I thank you for holding today's hearing and I look forward to hearing from our witnesses.

The CHAIRMAN. The chair thanks the Ranking Member, and asks all other Members of the Subcommittee to submit any opening statements for the record.

[The prepared statements of Mr. Peterson and Mr. Smith follow:]

PREPARED STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

Thank you Chairman Holden, for holding this hearing to take a look at the Rural Energy Savings Program Act. Congressman Clyburn is a strong supporter of rural communities, and I appreciate his interest in developing policies that will help consumers in rural communities with projects to improve energy efficiency. Many of the industries found in rural areas, including agriculture, are energy intensive. So, it is important to identify and promote programs that can encourage energy efficiency and renewable energy technology, particularly in rural areas.

This Committee has been very involved in developing opportunities for rural America to lead the way on energy independence and efficiency. I am interested to hear from our witnesses today on how H.R. 4785, the Rural Energy Savings Program Act, would work in practice to encourage energy efficiency in rural America and how it compares to existing programs.

Meeting the needs of underserved rural communities is an ongoing challenge and an important priority of this Committee. We have authorized some useful programs that are making a difference, and we are also interested in considering new ideas.

Again, I thank the Chairman for calling today's hearing and I look forward to asking a few questions.

PREPARED STATEMENT OF HON. ADRIAN SMITH, A REPRESENTATIVE IN CONGRESS FROM NEBRASKA

Thank you, Mr. Chairman:

As a Member of this Subcommittee, I am committed to promoting sustainable energy policies which will ensure access to affordable power, and facilitate meeting our nation's energy efficiency goals.

Moving forward, it is imperative we not allow misguided energy proposals such as cap-and-trade, which tax producers and consumers based on their carbon emissions, progress. Instead we should focus on enhancing energy policy to reflect upgrades in technology to lower costs and increase consumer choice.

Responsible and reliable energy development will continue to be an important part of the Congressional agenda, and I look forward to working with my colleagues

in Congress as well as industry officials and consumers to address America's mounting energy needs.

I appreciate the Subcommittee holding this hearing to review the Rural Energy Savings Program Act, and I look forward to hearing the observations and recommendations of our witnesses.

Thank you. I yield back.

The CHAIRMAN. We would like to welcome our first panel, the Honorable James Clyburn, Member of Congress, 6th District of South Carolina, the Honorable Ed Whitfield, Member of Congress, from the 1st District of Kentucky, the Honorable Thomas Perriello, Member of Congress, from the 5th District of Virginia. Mr. Clyburn, you may begin when you are ready.

STATEMENT OF HON. JAMES E. CLYBURN, A REPRESENTATIVE IN CONGRESS FROM SOUTH CAROLINA

Mr. CLYBURN. Thank you very much, Mr. Chairman, Ranking Member Goodlatte, Members of the Subcommittee. I appreciate the opportunity to testify in support of H.R. 4785, the Rural Energy Savings Program Act. Thank you so much for extending the courtesy, and I request permission to submit my full testimony for the record.

The CHAIRMAN. Without objection.

Mr. CLYBURN. Thank you. I particularly want to thank my partner in this project, the distinguished gentleman from Kentucky, and a good friend, Ed Whitfield. The Rural Energy Savings Program, which some have dubbed as RESPA, will put Americans back to work and help financially strapped families save money on their energy bills. The legislation is first and foremost a jobs bill, and it is based on common sense ideas that can be done in a fiscally responsible manner that will protect taxpayers and the Treasury. I take a great deal of pride in this legislation as it is a homegrown idea from South Carolina. It represents the best of our country's democratic traditions and engaged citizenry working across party lines to help their neighbors and make their communities better.

The genius of this idea lies in its simplicity. This is a loan program, not a grant or rebate. The bill would provide loan authority to the USDA's Rural Utilities Service so that rural electric co-ops can make loans to families and small businesses to implement energy savings improvements that meet RUS energy saving standards. Participating consumers will repay the co-ops for the installation and material cost through a charge on their utility bills over a 5 to 10 year window. The resultant energy savings from the upgrades will cover most, if not all, of the loan's cost, and after the loan is repaid consumers will save hundreds of dollars on their energy bills annually.

In my home State of South Carolina, 12 counties qualify. Now we only have 46 counties, 12, more than 25 percent, qualify as persistent poverty counties where according to the Economic Research Service of the USDA 20 percent or more of residents are poor as measured by each of the last four Censuses since 1970. National studies have shown that in households earning less than $10,000 per year 70 percent of their after tax income goes toward energy expenses. Mr. Chairman, Members of this Subcommittee, I would beg your indulgence. I have a short 3 minute video that I would

like for you to see. It is a video of one of my constituents. Thank you so much.

[Video.]*

Mr. CLYBURN. Thank you very much, Mr. Chairman. Mr. Chairman, South Carolina's unemployment rate hovers around 12 percent. We have been, for the last 2 years or more, in the top five in the country. Among South Carolina's rural electric co-op customers over 12 percent of their customers live below the poverty level, and over 24 percent of their customers live in trailers. Last autumn, I learned of efforts by rural electric cooperatives in South Carolina to address energy issues to create jobs in our state while helping their customers who are struggling with their energy bills. For several years now, South Carolina cooperatives have tried to help their customers reduce their energy consumption and save money by conducting energy audits of their homes. However, very few of these customers have the up front savings or the financial credit strength to afford purchasing or installing the energy efficiency measures recommended.

Even if a partial rebate were provided, most energy efficiency retrofits that yield significant energy savings are still too cost prohibitive for these rural families. Electric co-ops are owned by their customers and are active in the communities they serve. This ensures that they are highly accountable to their members. Today, there are more than 900 electric cooperatives providing utility service to 42 million Americans in 47 states. Now most co-ops have the necessary experience, infrastructure, and incentive to implement this program and a few are leading the way.

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 very close. I want to thank you for allowing me to submit the rest of this testimony. I don't want to test your patience here today, so let me conclude by saying that this bill provides job creation, energy conservation, and cost effective leverage that will save real people real money on their energy bills. There is broad-based bipartisan support for this initiative. It is a win-win-win proposition, and I urge the Subcommittee and the full Agriculture Committee to take the first step forward to help families in rural America and pass H.R. 4785. Thank you.

[The prepared statement of Mr. Clyburn follows:]

PREPARED STATEMENT OF HON. JAMES E. CLYBURN, A REPRESENTATIVE IN CONGRESS FROM SOUTH CAROLINA

Chairman Holden, Ranking Member Goodlatte, and members of the Subcommittee, I appreciate the opportunity to testify today in support of H.R. 4785, The Rural Energy Savings Program Act. Thank you for your courtesy.

We continue to face an uphill battle as our country climbs out of the worst recession since the Great Depression. Congress must act to empower individuals and communities to get back on their feet, and the bill before us today is an excellent vehicle that will do just that. The Rural Energy Savings Program, which some have dubbed as "Rural Star", will put Americans back to work and help financially-strapped families save money on their energy bills. The legislation is first and foremost a jobs bill, and it is based on common-sense ideas that can be done in a fiscally responsible manner that will protect taxpayers and the Treasury.

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*The video referred to is retained in Committee files, and is available to be viewed at *http://www.youtube.com/watch?v=7fxDfDujKmQ*.

I have a great deal of pride in this legislation, as it is a homegrown idea from South Carolina. It represents the best of our country's democratic traditions: an engaged citizenry, working across party lines, to help their neighbors and make their communities better. I am proud to be associated with this effort and I particularly want to thank my partner in this project, the distinguished gentlemen from Kentucky, my good friend, Ed Whitfield.

The genius of this idea lies in its simplicity. This is a loan program, not a grant or rebate, and the loans are paid back to the federal treasury. The bill will provide loan authority to USDA's Rural Utilities Service (RUS) so that rural electric cooperatives can make loans to families and small businesses to implement energy efficiency improvements that meet RUS energy savings standards. Participating consumers will repay the co-ops for the installation and material costs through a charge on their utility bills over a 5 to 10 year window. The resultant energy savings from the upgrades will cover most, if not all, of the loan's cost; and after the loan is repaid, consumers will save hundreds of dollars on their energy bills annually.

Today, the unemployment rate in South Carolina hovers around 12 percent, and in many parts of my district, the rate is twice that number. Among South Carolina rural electric cooperative customers, 12.5 percent of families live below the poverty level, and 24 percent live in mobile homes or trailers, which are notorious energy sieves.

Twelve counties in South Carolina qualify as Persistent Poverty Counties, where, according to the Economic Research Service of the USDA, 20 percent or more of residents are poor, as measured by each of the last four Censuses since 1970. As national studies have shown, for the poorest households, earning less than $10,000 per year, 70 percent of their after-tax income goes toward energy expenses.

In my district, I've talked with individuals and families, from young high school graduates to senior citizens living on a fixed income, many of whom have lost their jobs and who are forced to make hard choices every month between paying their electric bills and putting food on the table or buying medications they need to stay healthy. These are folks like Alicia Smith from Orangeburg County in my district. Alicia lives in a double-wide mobile home and, as a result of inefficient and obsolete utility systems in her home, her energy bill averages more than $400 per month. I would like to show you a short video about Alicia and how the Tri-County co-op helped her make her home much more energy efficient.*

That video really shows you what a great program we are talking about: loans, not rebates or handouts; putting contractors back to work. Moving products—insulation, HVACs, doors—off of shelves and getting our manufacturing sector back to work. And most importantly, making a difference for real people and saving them money.

Last autumn, I learned of efforts by rural electric cooperatives in South Carolina to address these issues—to create jobs in our state while helping their customers who are struggling with high energy bills.

For several years now, South Carolina cooperatives have tried to help their customers reduce their energy consumption and save money by conducting energy audits of their homes. However, very few of these of customers have the up-front savings or the financial credit strength to afford purchasing or installing the energy efficiency measures recommended. Even if a partial rebate was provided, most energy efficiency retrofits that yield significant energy savings are still too cost-prohibitive for these rural families.

And so South Carolina cooperatives determined what was necessary, and what would help them be most responsive to their customers' needs: to make available low-cost loans for high impact energy efficiency improvements—loans that could be repaid over time on the customer's utility bill.

For those unfamiliar with concept of cooperatives, I'll provide a little background. Electric co-ops 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 members. Today, there are more than 900 electric cooperatives providing utility service to 42 million Americans in 47 states, operating under a consumer-focused approach to business unique in the utility sector.

As this Subcommittee well knows, for 75 years USDA has been working with rural cooperatives to maintain and expand their infrastructure and establish new and vital services, resulting in billions of dollars in rural development and hundreds of thousands of jobs in rural America. Since their inception, co-ops also have borrowed extensively from the Federal government to finance electric distribution, gen-

*The video referred to is retained in Committee files, and is available to be viewed at *http://www.youtube.com/watch?v=7fxDfDujKmQ*.

eration 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 them.

Moreover, most co-ops have the necessary experience, infrastructure and incentive to implement this program. A few, however, are leading the way. The Rural Energy Savings 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.

As an 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 up-front capital.

Just as important as the energy savings to rural customers is the positive impact on the economy. South Carolina cooperatives have estimated that in South Carolina alone the bill would create 2,539 new jobs in the first year, 4,618 by 2020, and 7,113 by 2030. These include direct jobs at the cooperatives and for contractors associated with performing energy audits and retrofitting homes, as well as indirect jobs generated by suppliers and support services. Nationally, the bill would create 20,000 to 40,000 new jobs every year.

Importantly, these will be good jobs at good wages that don't require a 4 year college degree. Community colleges and technical schools will be critical partners in helping to train the workers needed to implement the program. Already in South Carolina the Technical Education System has created BPI certification programs to train the types of professionals who would conduct energy efficiency audits under the RESP.

The Rural Energy Savings Program is a real opportunity to positively impact the lives of rural, low-income communities across the country—to improve their quality of life, provide them with the training necessary to gain good-paying jobs that can't be shipped overseas, and to allow people to help their neighbors and improve their communities.

In conclusion, Mr. Chairman, this bill provides for job creation, energy conservation and cost-effective upgrades that will save real people money on their energy bills. There is such broad bipartisan support for this initiative because it is a win-win-win proposition. I would note that the bill currently has 41 cosponsors, including nine Republicans and several Members of this Committee. I urge the Subcommittee, and the full Agriculture Committee, to take the first step forward to help families in rural American and pass H.R. 4785 expeditiously.

Thank you for your time, and I would be happy to answer any of your questions.

The CHAIRMAN. Thank you, Mr. Clyburn. Mr. Whitfield.

STATEMENT OF HON. ED WHITFIELD, A REPRESENTATIVE IN CONGRESS FROM KENTUCKY

Mr. WHITFIELD. Chairman Holden, Ranking Member Goodlatte, and Members of the Committee, thank you very much for this opportunity to testify on H.R. 4785, the Rural Energy Savings Program Act. I am delighted to have the opportunity to work with the distinguished Majority Whip, Mr. Clyburn, on this legislation. The main reason I cosponsored this legislation is because in Kentucky, and across the nation, the amount of electricity generated today barely meets the electricity demand and we know that demand is expected to increase dramatically over the next several years. The Energy Information Administration estimates demand for electricity will grow 30 percent by 2030 providing for a total of 264,000 new megawatts unless extraordinary efficiency measures are adopted we will not meet this demand.

Now this magnitude of increase is equivalent to adding four Californias or 13 Kentuckies to the demand for electricity. Among electric cooperative consumers demand growth is projected at about double the national average because co-ops serve energy intensive

agricultural sites. A study by the North American Electric Reliability Council found U.S. electricity usage is projected to grow twice as fast as our committed resources. In some regions, demand will soon outstrip capacity unless new generation and transmission are added. The reality is that we require more electricity generation, and that is compounded by the fact that right now it is extremely difficult to bring online more nuclear or coal generation plants.

And I can tell you wind power and solar power simply cannot come close to meeting our energy demands. Although energy efficiency will not get us all the way there to meet our electricity demand, investments in efficiency can help take the place of generation capacity that is unable to come online right now. Because of that, I am pleased to be here today to advocate on behalf of the Rural Energy Savings Program which simply creates a loan program administered by the U.S. Department of Agriculture's Rural Utilities Service and provides loans to electric cooperatives to lend money to consumers for the purpose of energy saving retrofitting. The bill allocates $4.9 billion over the next 10 years to be loaned out to improve energy efficiency in private homes and businesses, and as a result lower electricity costs for consumers but also reduce electricity demand.

Now I know I feel the way many of you do who are concerned about the $4.9 billion number, but it is important to note that this money will be repaid. So, the actual cost of this legislation will be the amount of any interest cost not recovered, and we will have to see what CBO says about that. But I look forward to working with all of you. I know we are all concerned about our debt in this country. I look forward to working with all of you on identifying a pay-for to offset any potential cost that may be identified. Thank you very much for your interest in this important legislation, and I want to thank Mr. Clyburn again for his leadership on this effort, and I yield back the balance of my time.

The CHAIRMAN. Thank you, Mr. Whitfield. Mr. Perriello.

STATEMENT OF HON. THOMAS S.P. PERRIELLO, A REPRESENTATIVE IN CONGRESS FROM VIRGINIA

Mr. PERRIELLO. Thank you, Chairman Holden, and, thank you, Ranking Member Goodlatte, a neighbor from the Commonwealth, and all the respected Members of the Subcommittee, thank you for today's hearing on H.R. 4785, the Rural Energy Savings Program Act. I would also like to thank Mr. Whitfield for his leadership and Majority Whip Clyburn as we have been working together closely on both rural electric issues and nuclear issues over recent months, and hope to continue to have victories in those areas. I believe this Rural Star Program can unleash investments in energy efficiency throughout our rural communities, put Americans back to work often using products produced here in America, and create a lasting legacy of lower energy consumption and lower carbon emissions.

The bill is a win for our economy, for our environment, and for our budget. Working through the USDA's Rural Utilities Service to provide support to rural electric co-ops is a fiscally responsible proposal to expand energy efficiency, and the rural electric co-ops are

a reliable and trusted partner for leveraging public dollars. These loans are not grants or giveaways and will be paid back. Rural electric co-ops have the history to show that they can and will utilize our public dollars to produce great impact. There is a great need for improving energy efficiency in our rural communities especially in the Southeast. A recently released study by a team from the Georgia Institute of Technology and Duke University's Nicholas Institute titled *Energy Efficiency in the South* found that the southeastern states could lower their electric bills by a cumulative $41 billion a year and create 380,000 new jobs by 2020 simply by focusing on energy efficiency.

The report, in fact, shows that the South has the potential to become the "Saudi Arabia of energy efficiency" because of the huge potential gains. With so much potential, why does the Southeast lag behind other regions of the country in energy efficiency? In many ways it is the same reasons that almost 80 years ago meant that most rural communities lacked electrification. Our nation's energy system at the time left behind rural communities that didn't have the capital to invest up front on electrification. Without dependable sources of electricity, rural America had no chance at competing on a level playing field with other parts of the country for jobs or quality of life. Eighty years ago we created the Rural Electrification Administration to electrify our rural communities through these co-ops.

Many said it wouldn't work but they were wrong. Eighty years later these co-ops are still a success, and are still serving their local communities by providing affordable and dependable electricity. So today we risk leaving our rural communities behind again. In my district, Dominion Power is working with the City of Charlottesville and the County of Albemarle on the more affluent end of my district to forward fund energy efficiency improvements to homes that will be paid back on their electric bills, much like this bill would do for rural electric co-ops. Unlike wealthier areas where localities can help provide matching funding, our rural communities are already stretched thin. This economic crisis has already forced our rural communities to cut funding in many vital services.

We have the opportunity to fill the gap by expanding RUS's loan authority and working with rural electric co-ops to deliver real results to our rural households with lower energy bills through energy efficiency improvements to their homes. This legislation will do for our rural communities today part of what rural electrification did for them during the Great Depression. I thank the Chairman and the Ranking Member for their consideration of this bill and urge the Subcommittee to support this timely bipartisan legislation. With that, I yield back and say thanks.

The CHAIRMAN. Thank you, Mr. Perriello. The chair now recognizes the Chairman of the full Committee, Mr. Peterson.

OPENING STATEMENT OF HON. COLLIN C. PETERSON, A REPRESENTATIVE IN CONGRESS FROM MINNESOTA

Mr. PETERSON. I thank the Chairman and commend him and the Ranking Member for this hearing, and I just want to comment Mr. Clyburn, the NRECA and the rural electric co-ops for their foresightedness and leadership on this issue. I think conservation is

probably the easiest lowest hanging fruit we have out there in terms of getting energy independent, and this is a great bill, great idea, so I am all behind you, and thank you for your leadership. You have not only been a leader on this, Mr. Perriello, but on all of the rural development issues and have been a great supporter of this Committee and the farm bill and the work we did there. So, we appreciate your leadership and look forward to making this bill become law. Thank you.

The CHAIRMAN. Thank you. The chair thanks the Chairman, and would like to thank our witnesses for their testimony today. In consultation with Mr. Goodlatte, we traditionally don't ask questions of Members so unless anybody has a burning desire to ask any questions, we will thank our panelists for their testimony. Thank you. We now would like to have panel two, Ms. Nivin Elgohary, Acting Assistant Administrator, Rural Utilities Service, United States Department of Agriculture. Ms. Elgohary, when you are ready, you may proceed.

STATEMENT OF NIVIN ELGOHARY, ACTING ASSISTANT ADMINISTRATOR, RURAL UTILITIES SERVICE, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C.

Ms. ELGOHARY. Good morning. Mr. Chairman, Ranking Member Goodlatte, and Members of the Committee, I want to thank you for the opportunity to discuss energy efficiency solutions through the U.S. Department of Agriculture Rural Development Rural Utilities Service Electric Program. The Rural Utilities Service, RUS, Electric Program is a successor to the Rural Electrification Administration that was established in 1935. Today, RUS has over 650 borrowers with an outstanding portfolio of approximately $42 billion and a delinquency rate of less than ½ of 1 percent. RUS is authorized to provide loans for construction and operation of generating plants and electric and transmission distribution lines. RUS is also authorized to provide loans to furnish or improve electric service including demand side management and energy conservation.

The RUS is also authorized to defer borrowers' principal or interest payments on RUS direct debt as opposed to guaranteed Federal financing bank debt. The ERC, or Energy Resource Conservation program, allows the borrowers to defer principal payments and reamortize the deferment over a 7 year period. Borrowers in turn may use these deferments to make funds available for energy efficiency and conservation measures. The first ERC agreement was signed with a borrower in 1981. To date, we have 43 agreements for a total of $64 million in deferments. Although the ERC program has been available for approximately 30 years the eligible loans that are available for deferments are declining.

Only RUS direct loans may be deferred. RUS has not had direct funding appropriated since 2007. Recently, Section 6101 of the farm bill amended Sections 2 and 4 of the Rural Electrification Act to explicitly authorize loans to borrowers for energy efficiency. The amendment codified a longstanding USDA policy. We are currently working on regulations to implement the farm bill provisions. H.R. 4785 is an energy savings loan program for rural areas. It provides for a $4.9 billion loan program at a cost of $755 million. These funds would be available for 5 years or until the funds are fully ob-

ligated. H.R. 4785 also includes a grant identified as a jump start grant for each loan not to exceed four percent of the loan amount. If enacted, eligible applicants would be able to borrow the funds from RUS and relend these funds to their consumers for energy efficiency measures.

The grant funds may be used to defray the cost of implementing the energy efficiency relending program. The eligible applicant will submit to RUS an energy efficiency plan and request for a loan. RUS will approve the loan request upon receipt and review of the applicant's plan along with any existing application requirements and lending policy. Once the loan is approved the borrower will receive a zero interest loan for up to 10 years. The borrower will use the loan proceeds to provide low interest loans to their members for energy efficiency measures. The consumers' loan may carry an interest rate of no higher than three percent.

The consumers' energy savings as a result of the efficiency measures will be reflected on the electricity bill. The savings will be used to pay back the energy efficiency measures over a 10 year period. The cost of this rural energy savings loan program as suggested in H.R. 4785 is $993 million. This cost includes the $755 million as a cost of the direct loan program and an additional $238 million for grants, technical assistance, and administrative expenses for RUS to implement the program. Mr. Chairman, I want to thank you for the opportunity to discuss energy efficiency efforts at RUS and to provide expert testimony on H.R. 4785. I will be glad to answer any questions that the Members of the Subcommittee may have.

[The prepared statement of Ms. Elgohary follows:]

PREPARED STATEMENT OF NIVIN ELGOHARY, ACTING ASSISTANT ADMINISTRATOR, RURAL UTILITIES SERVICE, U.S. DEPARTMENT OF AGRICULTURE, WASHINGTON, D.C.

Mr. Chairman, Ranking Member Goodlatte, and Members of the Committee, thank you for inviting me to discuss energy efficiency solutions through the United States Department of Agriculture Rural Development Electric Program administered by the Rural Utilities Service.

The Rural Utilities Service (RUS), one of three agencies within USDA's Rural Development Mission Area, assists rural communities in providing essential electric, telecommunications, and water infrastructure. Today's RUS Electric Program is the successor to the Rural Electrification Administration, established in 1935. The RUS Electric Program portfolio has over 650 borrowers with an outstanding balance of over $42 billion, it has performed in exemplary fashion, with a delinquency rate of less than ½ of 1 percent. RUS loan funds may be used to finance the construction and operation of generating plants, electric transmission and distribution lines or systems for furnishing or improving electric service. The RUS is also authorized to make loans to implement demand side management and energy conservation programs, both on-grid and off-grid.

Section 6101 of the 2008 Farm Bill amended Sections 2 and 4 of the Rural Electrification Act to explicitly authorize loans to electric borrowers to implement energy efficiency programs. These amendments codified a long-standing USDA policy. USDA now is developing regulations to implement an effective energy efficiency program. Our goal is to provide borrowers an opportunity to submit loans for energy efficiency programs, and the new regulations now under development will establish the rules that apply to this type of investment.

RUS also has decades of experience in funding energy efficiency. Our borrowers have had an option to offer energy efficiency and conservation programs via the Energy Resource Conservation (ERC) program. The law authorized the Secretary to permit the extension of loan principal or interest for up to 5 years. The regulation extends the authority to allow borrowers a deferment of principal, re-amortized over 7 years, to make funds available for caulking, weather-stripping, heat pumps sys-

tems, water heaters, central heating and air conditioning system replacements, ceiling/flooring/duct insulation, and storm and thermal windows.

Under the ERC program, there have been 43 agreements with approximately $64 million deferred since the first agreement in 1981. Although this program has long been available for energy efficiency efforts, the pool of loans eligible for deferments is declining.

The 2008 Farm Bill also amended Section 12 of the Rural Electrification Act to allow deferment of principal and interest, rather than just principal, for the purposes of energy efficiency, improved energy efficiency and demand reductions, and energy audits.

H.R. 4785 is an energy savings loan program for rural areas. It provides for a $4.9 billion loan level available, assuming a cost of $755 million for 5 years or until the funds are fully obligated. We are uncertain whether or not this is a realistic assumption. An additional $238 million is authorized for grants, technical assistance, and administrative expenses for RUS to implement the program. Individual co-ops or state-based groups of co-ops apply for a loan to fund energy efficiency programs for their members. This program would allow the RUS borrower to re-lend the funds to their consumers for energy efficiency measures. These measures include projects such as sealing, insulation, HVAC systems, boilers, roofs and other structural improvements and investments that the utility has demonstrated to RUS will produce sufficient savings. Energy efficient appliances are not eligible for this program.

Under H.R. 4785, RUS will receive and review the borrowers' energy efficiency plan. The plan must include: the type of energy efficiency measures, the savings associated with the measures, and how they will implement the plan. Trained auditors and contractors will conduct individual consumer energy audits to determine what sorts of energy efficiency improvements are warranted. The loan will be supported by the implementation plan and will include a system-wide energy savings.

The RUS borrower will receive a zero-interest loan to provide low-interest consumer loans to its members. The consumer loans will carry an interest rate no higher than 3%. The reason for this limited interest costs above zero is to fund a loan loss reserve and offset personnel and program implementation costs. Typical consumer loans may be $1,500 to $7,000.

The consumer's energy savings will be reflected on the electricity bills. The savings reflected on the bill assume the project will pay back the energy efficiency measures within a 10 year period. The goal of these loans is for the energy savings from the upgrade to cover most, if not all, of the cost of the loan. If successful, consumers will potentially continue to save on their energy bills after the loan is repaid. RUS would use its existing procedures to approve loans and to advance funds. In accordance with current practice in RUS Electric programs, no loan funds would be advanced on approved loans until the utility borrower submits documentation of work completed for the approved purposes of this program.

H.R. 4785 also identifies a "jump start" grant, not to exceed 4% of the loan, to the RUS borrower to begin the process. The grant funds may be used to defray the costs of implementing the re-lending program. The borrower may use these funds to pay contractors and/or procure for equipment and labor.

H.R. 4785 also identifies a $2 million grant to provide utility auditors with information about how to implement the measurement and verification of savings, how to establish contractual relations with efficiency upgrade contractors and how to assist consumers in whose homes and businesses upgrades are being made. It would, for example, allow RUS to offer zero-interest loans for up to 10 years to current borrowers to fund energy efficiency measures for their consumers. If H.R. 4785 were enacted the energy efficiency efforts for this rural energy savings program does fit within the authority of the RUS. The definition of eligible entity in the proposed legislation would include all previous or current RUS borrowers, or a subsidiary or affiliate of a previous or current RUS borrower.

The repayment period of 10 years on the zero-interest loan would be a deviation from our existing law that requires the loan term to match the useful life of the asset. As a result, the legislation contemplates a net cost that is substantially higher than our existing programs, which currently operate on a zero subsidy model.

Although existing RUS regulations provide strong protection against fraud, it is important to ensure either in statute or implementing regulations that borrowers under H.R. 4785 maintain strong internal controls and adequate monitoring. The success of this program will hinge on this. Finally, the legislation limits the amount of funds that a borrower can advance during a single year to 50 percent of the loan amount. Currently, RUS borrowers request loan funds on a reimbursement basis with verification of completed work orders. This reimbursement provision is generally considered more advantageous for the lender—in this case, RUS—than those which advance funds.

RUS currently reviews and approves borrower's load forecasts. The load forecasts use economic modeling to capture expected load reductions from energy efficiency programs, energy conservations and load management programs. The cooperative segment of the electric industry has been a nationally recognized leader in energy efficiency and demand side management practices. Such practices reduce demand and help mitigate the need for new electric generation capacity.

RUS has also been instrumental in financing a popular and successful effort to install geothermal ground loop systems replacing inefficient heating and air conditioning systems. The up-front cost of these systems can be prohibitively expensive for many homeowners, but with the assistance of the ERC program, the cost to the home owner can be reduced to affordable levels.

Recently, for example, two cooperatives in Alabama and Kentucky and the Hawaii Habitat for Humanity Office were awarded High Energy Cost Grants, administered by the Electric Program, to assist low income homeowners to install energy efficiency measures to reduce their energy bills. A previous grant to the Alabama cooperative proposes to assist 100 very low income home owners repair or replace duct work, install energy efficient appliances, replace inefficient furnaces and central air conditioners with highly efficient heat pumps, install insulation and energy efficient doors and windows. These efforts reduce not only the energy bills of the home owner, but also the amount of energy the cooperative has to purchase to serve those homes. One example shows the home owner monthly electric bill decreasing from 3,979 kwh per month to 2,080 kwh per month, a 48 percent reduction.

H.R. 4785 would require RUS to contract for services to provide program measurement and verification, in addition to training and technical assistance to implement and deliver consumer energy efficiency projects. The legislation provides funding for additional staff and program expenses to manage the energy efficiency efforts. RUS is reviewing these provisions to determine their impact on our current program.

Mr. Chairman, thank you for the opportunity to testify to provide details on the impact H.R. 4785 would have on the RUS programs. I would be pleased to answer any questions the Members of the Subcommittee have.

The CHAIRMAN. Thank you, Ms. Elgohary. The chair will remind Members that they will be recognized in order of seniority for those who were here at the beginning of the hearing and after that on time of arrival. Ms. Elgohary, you state in your testimony that you are uncertain whether or not the assumed cost of $755 million for 5 years is a realistic assumption for the $4.9 billion loan level. Why is it not certain?

Ms. ELGOHARY. At this point in time the Department has not run any official subsidy calculations on the $4.9 billion. We have no reason to believe that the cost would be inaccurate at this time.

The CHAIRMAN. You mention in your testimony the low delinquency rate. How do we ensure the approach taken in H.R. 4785 does not have a negative impact on the overall quality of the RUS loan portfolio, and how can we make sure the loans made are to creditworthy borrowers?

Ms. ELGOHARY. As you have heard quite often, our borrowers have been in the program for at least 75 years since the inception of the program. Our repayment history and relationship with the borrower has been impeccable. Our current delinquency rate is less than ½ of 1 percent, as I mentioned in my testimony. We also have a mortgage security document with these borrowers that puts a lien on all of their assets. The first lien encumbers everything the borrower owns now and everything the borrower could possibly own in the future. Based on the existing relationship with the borrowers, we have no reason to believe that that repayment history wouldn't continue.

The CHAIRMAN. Do you believe that your safeguards are extended to this legislation, if approved?

Ms. ELGOHARY. We believe that they are in place, yes.

The CHAIRMAN. Will rural electric cooperatives who are not a current borrower from RUS be eligible for a loan program in this legislation?

Ms. ELGOHARY. I believe the legislation specifically identifies who the eligible entities would be. It identifies public utility districts, public power districts, cooperatives or similar utilities that have either paid out or are currently paying the RUS debt. It also identifies an affiliate or subsidiary of any of those entities to be eligible for funding under this program.

The CHAIRMAN. What about rural areas not served by rural electric cooperatives?

Ms. ELGOHARY. I believe if they fall within the category of an *eligible entity* as defined in H.R. 4785 they would be eligible for funds under this program.

The CHAIRMAN. Thank you. Mr. Goodlatte.

Mr. GOODLATTE. Thank you, Mr. Chairman. Ms. Elgohary, welcome. Am I pronouncing your name correctly?

Ms. ELGOHARY. That is fine.

Mr. GOODLATTE. That is fine. I think that is a no. Maybe you could educate all of us.

Ms. ELGOHARY. I am used to responding to anything that comes close. It is Elgohary.

Mr. GOODLATTE. Elgohary. All right. Thank you. The President's budget proposes the Rural Utilities Service Electric Loan Program no longer make funds available for base or peak generation from fossil fuels, thus eliminating funding for coal and natural gas projects. I believe this policy will limit energy feedstocks and drive up energy costs for rural customers. Additionally, natural gas is paired with renewable wind projects to ensure electricity supply isn't interrupted. Can you comment on why the Administration wants to limit lending to rural electric cooperatives?

Ms. ELGOHARY. At this point in time, the Administration feels that the budget is appropriate. I am here basically to provide expert testimony on H.R. 4785, and I am not able to answer that question at this time.

Mr. GOODLATTE. I wonder if you might respond to that in writing after consulting with others in the Department, and in the Administration, as to why they would do that particularly when wind given its unreliability, its inconsistency in terms of generating electricity must be paired with some other source to protect base loads, and natural gas is often what is used for that purpose. Why you would eliminate funding for coal or natural gas to lending for rural electric cooperatives that need to get increased production?

Whether or not we take the measures that are called for in this legislation, there is no doubt that increased demand is going to play a role in the future of rural America, at least hopefully. We are hoping that we are going to see economic growth that will call for that increased use. With regard to the legislation, are rural electric cooperatives currently offering lending for energy efficiency projects to customers for their homes?

Ms. ELGOHARY. Through the ERC program that I described as part of the testimony, our borrowers can defer their debt and in turn take the deferred amounts and allow their consumers to im-

plement energy efficiency and conservation through a loan program.

Mr. GOODLATTE. And are there programs within the Rural Utilities Service that would allow this type of lending?

Ms. ELGOHARY. Energy efficiency and conservation is an eligible purpose under their Rural Electrification Act. However, we haven't had full implementation of energy efficiency measures at the extent that H.R. 4785 suggests because of the cost associated with the borrowers taking out the funds in the FFB program.

Mr. GOODLATTE. How would the Rural Utilities Service administer the demonstration program authorized in this bill? Are there co-ops ready to administer this lending program?

Ms. ELGOHARY. We believe there are a handful of co-ops that would be ready to step up and administer such a program at this scale.

Mr. GOODLATTE. I have heard from some of the co-ops in my district who are opposed to this legislation. Have you heard from rural electric cooperatives around the country that are concerned about implementing a new program like this, they think it will detract from the main mission of the Rural Utilities Service and the focus that needs to be placed on their ability to access greater sources of electric generating capacity?

Ms. ELGOHARY. I have not.

Mr. GOODLATTE. And you mentioned in your testimony that the RUS is still looking into the need for additional employees to administer the Rural Energy Savings Program. In your personal opinion, will the RUS need additional money for administration costs to run the program? Can the RUS run the program at current staffing levels?

Ms. ELGOHARY. Our current staffing levels are set and we have been able to administer the $6.5 billion that we have received in appropriations over the last 3 years. I think you would agree that an additional $4.9 billion would be an additional stress on the program, but we would certainly try to do the best we could with the resources we are allotted.

Mr. GOODLATTE. And do you believe that the reserve fund created by this program from the interest on loans is sufficient to offset possible loan defaults?

Ms. ELGOHARY. The loan defaults are expected at the consumer base. Our borrower would still be liable for any of the RUS loan advances that they would take through the program. We don't have any reason to believe that our borrowers would be in a higher risk or less likely to repay the RUS debt.

Mr. GOODLATTE. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. The chair thanks the Ranking Member. The gentleman from Tennessee, Mr. Roe, who is not a Member of the Subcommittee, has joined us. I consulted with the Ranking Member, and we are pleased to welcome him to join in the questioning of the witness. The gentleman from North Carolina, Mr. Kissell.

Mr. KISSELL. Thank you, Mr. Chairman. Ms. Elgohary, I appreciate you being here today. As we anticipate moving forward with this bill and monies become available for a loan for someone that lives in a trailer or a substandard house. We know in rural areas, in the part of North Carolina I am from, we have a lot of co-ops

and we have a lot of people that would fit that definition. How would they go about accessing a loan? Would they have to go out and find a contractor to say this is what you would need to fix and then come back and present that to the co-op for consideration, or would the co-op provide experts that would go out and say this is what you need to do? How would that work?

Ms. ELGOHARY. We would envision that the program would be marketed and spearheaded at the co-op where the co-op would reach out to its consumer base and allow some sort of marketing and education to the consumers. The consumers, based on an energy audit, would then select the type of energy efficient improvement that they would like in their home. Based on the audit, the energy efficiency measures—the cost of the energy efficient measures should be recognized in a savings on that consumer's electric bill.

Mr. KISSELL. Now would there be approved, and once again anticipating what we might see, would there be approved contractors, people that have been certified to say that these people will go out and do a good job and not say that we are going to do this, and then not do that, and we end up loaning money and not see energy results? How will we provide oversight to make sure that what needs to be done is done in a credible way?

Ms. ELGOHARY. There is funding. As H.R. 4785 states, there is funding available for training contractors, providing certifications for those contractors to be able to implement energy efficiency measures at the consumer's home. In addition to that, none of the contractors would be paid until the work has been checked and ensured that the energy efficiency measures were properly implemented at that consumer's home. To go just one step further, RUS' standard operating procedures only allows the reimbursement of loan funds, so we would have to know that the borrower's work has been completed. Completed work orders would be submitted to RUS, and then we would be able to advance the funds to the borrower.

Mr. KISSELL. And in terms of the people that are making this application, would there be any consideration given to the needs, the amount of—someone who lived in a terrible situation in terms of their energy inefficiencies *versus* someone that just had marginal possibilities for improvement but wanted the full amount of money to get whatever, new air conditioning, new heating system and said to be marginal savings *versus* greater savings. Were there any considerations being made along those lines?

Ms. ELGOHARY. RUS will receive a plan from the borrower, and I would assume the borrowers would identify the type of energy improvement measures that would be implemented and the percentage penetration based on those various types of measures. But, it would be up to the consumer to select what type of energy improvement they want at their home. The energy efficiency audit will show, based on the selection from the consumer, what type of improvements they want in a home based on the final numbers that come back from the audit. The co-op will work with the consumer to set up a repayment schedule where hopefully the savings will pay for the cost.

Mr. KISSELL. But in terms of consideration for who gets it first, it would be first come, first serve, or would there be consideration given to, hey, we could save a lot more if we gave it to this person *versus* someone else?

Ms. ELGOHARY. That decision would be made by the co-ops. RUS would not get involved in deciding which consumer would be eligible for what energy efficiency projects.

Mr. KISSELL. Okay. Thank you, ma'am. Thank you, Mr. Chairman.

The CHAIRMAN. The chair thanks the gentleman, and recognizes the gentleman from Nebraska, Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman. Thank you for your service. The stimulus bill last year provided about $8 billion for weatherization and renovation of low income and public housing. Do you know how much of that is out the door?

Ms. ELGOHARY. I do not. I do know that we do have some of the borrowers that have applied for those funds through the state and have received funding and have done—Hoosier, for example, has done a fantastic job of making good use of the grant funds through that program.

Mr. SMITH. Okay. Is it largely out the door though, would you say?

Ms. ELGOHARY. I am not aware.

Mr. SMITH. Thank you. And then also what would you point to in this program that would really encourage people to make the right decision because it is the right decision, rather than just the funds available?

Ms. ELGOHARY. I would say that one of the benefits of H.R. 4785 is that it is a loan program. If people are looking at conserving energy and being able to save money on their electric bill, then the loan program permits them to defer the cost of paying for the energy efficiency improvement over a period of time, as opposed to spending the money on a rebate of some sort and then having to wait for the benefits of that expenditure. That is the end of my comment.

Mr. KISSELL. Thank you. Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. The chair recognizes the gentlewoman from Colorado, Ms. Markey.

Ms. MARKEY. Thank you, Mr. Chairman. So last week we passed the Home Star Energy Retrofit Act, which gives rebates to homeowners to install energy efficient—make their home more energy efficient. This bill would, looking at the differences, would eliminate those up front costs that a consumer has. Instead of a rebate, you get the money up front, so I guess that is the biggest difference is you don't have to pay out. Would a consumer be eligible to use both programs?

Ms. ELGOHARY. Based on my knowledge of the bill, it has been passed and what I understand on H.R. 4785, I believe they would compliment each other.

Ms. MARKEY. You mentioned earlier, I thought the Chairman asked a question about rural areas that are not served by rural electric cooperatives. I think you said those consumers, homeowners, would still be eligible. How would that work if the way this program works is that you repay over 10 years through your utility

bill, but if you are not getting your electricity from that rural co-op, how could you be eligible? How would that work?

Ms. ELGOHARY. If you are receiving service from the *eligible entity* as defined in H.R. 4785 so if the consumer is receiving electric service from a PUD, a PPD, or electric co-op, then, yes, they would be eligible for the program through their electric provider.

Ms. MARKEY. Through their electric provider.

Ms. ELGOHARY. Yes.

Ms. MARKEY. What administrative costs are there to the co-ops, because, obviously, they have to set up a new system whereby they are going to be monitoring the cost savings of the consumer and the consumer is paying this loan back through their utility bills. So have you heard from the co-ops on what kind of start-up cost and time that they are going to need to get this system, which would be fairly complex, to get it set up? And then who is bearing the cost of this? Are the co-ops going to be compensated for setting up this new system whereby they are tracking the energy savings and consumers are paying back through their utility bills?

Ms. ELGOHARY. We would assume that some of the grant components would be used to fund some of those up-front costs. With regard to the timing and how quickly they could turn these around, it would depend on the current structure within the electric co-op. If they already have IT systems available to track energy efficiency and the benefits of energy efficiency, then certainly that cost would not have to be incurred to this program. For those co-ops that are not as ready to start the implementation of such an energy efficiency program, part of the funds in H.R. 4785 would be allowed through the grant components.

Ms. MARKEY. Have you heard from co-ops on estimates, range of estimates of how much it would cost to get it set up?

Ms. ELGOHARY. We haven't gone out and polled our borrowers to get an idea of what these estimates are.

Ms. MARKEY. Would small businesses in rural areas be eligible for this program or is it just homeowners?

Ms. ELGOHARY. In some of the cases, depending on where the co-op implements the program, small businesses would also be eligible.

Ms. MARKEY. All right. Thank you, Mr. Chairman. I yield back.

The CHAIRMAN. The chair thanks the gentlewoman and recognizes the gentleman from Pennsylvania, Mr. Thompson.

Mr. THOMPSON. Thank you, Mr. Chairman, and Ranking Member, and, thank you, Ms. Elgohary, for your leadership and your testimony. Kind of getting to a basic, are there specific metrics that are used with all the investments proposed, and what we have already done in terms of weatherization, energy efficiency? Are there specific metrics that are used in terms of measuring energy efficiency that quantify this in a tangible way, or is it strictly based on reported savings and fuel bills that consumers have?

Ms. ELGOHARY. H.R. 4785 uses an energy savings component so a reduction in kilowatt hour usage translates into savings. We do know that a lot of our borrowers do look at energy efficiency as part of their planning and implementation. RUS has a load forecasting requirement that is rolled from the distribution level up to the generation transmission level and then submitted to RUS for

approval. So, we do know that a lot of the borrowers do look at energy efficiency measures and conservation, as well as the management.

Mr. THOMPSON. With the types of investments that we have seen with this today and with this proposed bill, is there a running total? Is there data that you could provide us in terms of energy efficiency achieved to date from the investments that we have had basically in a lot of rural America with weatherization and energy efficiency initiatives?

Ms. ELGOHARY. At this point in time, RUS does not have the technology in place to be able to capture that level of detail and be able to report on it. We do know that the borrowers are looking at energy efficiency. We do review energy efficiency measures, demands on management conservation, through load forecasts. We also review their plans as part of their loan request but our current system does not capture that kind of information.

Mr. THOMPSON. Will this new piece of legislation provide that component, because any time we are spending significant monies, we need to be accountable in a very transparent way and be able to report. I think that gives the American taxpayer confidence that we are investing in the right way. Is there a piece within this new legislation to be able to get that quantifiable data that you said that is out there so that the American people can see that this is a good investment.

Ms. ELGOHARY. As I mentioned, the farm bill provided energy efficiency as an explicit purpose under the Act, so RUS is already looking at its reporting requirements and ways that we can change our IT systems to have the borrowers report, and then have RUS capture and report on that kind of data, so we were doing it outside of H.R. 4785.

Mr. THOMPSON. Okay. Thank you. One more question for you. You made it clear in your testimony that H.R. 4785 will be very beneficial for rural areas. In your view, are there any areas of the bill which you feel need to be improved upon?

Ms. ELGOHARY. Not at this point in time.

Mr. THOMPSON. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. I thank the gentleman. The chair now recognizes the gentlewoman from South Dakota, Ms. Herseth Sandlin.

Ms. HERSETH SANDLIN. Thank you, Mr. Chairman. And, Ms. Elgohary, I would like to explore with you a little bit following up on Mr. Thompson's question. You had said that RUS has already been working on some of the reporting requirements, so I would like to explore a little bit on how the energy efficiency loan programs that were authorized in the 2008 Farm Bill, how they—and I know you are currently developing the rules for that program, how does that differ from Mr. Clyburn's proposal? I am a cosponsor of this bill. I just met with some of my rural electric co-ops earlier this week, they are very excited about the possibility of this program because they actually do have—they have worked together to pool resources to offer similar types of loans, low interest loans, to their members to be able to promote different objectives including energy efficiency.

One of the gentlemen I talked to said this isn't just the low-hanging fruit. This is the fruit lying on the ground ready for us to pick

up to lower our carbon footprint, to be of economic consequence and benefit for rural electric cooperative members. I think, clearly, one of the advantages of Mr. Clyburn's legislation compared to perhaps the loan program that we authorized in 2008, is that it is offered again through RUS but builds on the longstanding relationship that consumers have with their particular rural electric cooperative. So if you could talk about the differences, but also I want you to address, if you can, how the rules you are currently developing and how that might marry into this new program should it pass the House and the Senate. What kind of accreditation or certification requirements are you developing?

As you know, the House just passed the Home Star Energy Retrofit Act and I worked with Chairman Waxman, Chairman Markey, Mr. Welch to make some changes that could benefit contractors in more rural areas. I think that there are still some restrictive requirements there that we need to continue to work through. But I would hope that RUS would recognize that we have a lot of qualified contractors out there who should, based on existing certification, be able to participate fully in the program.

Ms. ELGOHARY. Okay. I will try to do my best to cover all of those questions. With regard to the first point, the difference between the changes in the farm bill and H.R. 4785—the key difference there is that H.R. 4785 identifies the interest rate that our borrowers will pay through this legislation so it is zero to RUS. The farm bill legislation would allow RUS to provide energy efficiency through its existing appropriations. Right now, in 2010, all of our appropriations for our borrowers are coming out of the FFB program. The current interest rate, long-term FFB program, is about 4.2 percent. In addition, all of our loans that would be made if we were to add in the farm bill provisions are based on the useful life of the asset. H.R. 4785 identifies that the loans will be for up to a 10 year period. Those are two key components in the difference between those two.

You asked me about accreditation and how we would be able to get that information. The staff and I are working now on trying to come up with measures. We are talking to industry leaders trying to figure out the best way for us—how we can capture from the borrowers the true energy savings, carbon emission reductions, and the avoided cost on more expensive plant improvements.

Ms. HERSETH SANDLIN. I appreciate that. I guess what I was trying to get at is in the Home Star program that we just passed for contractors to be able to participate to do the energy audit of the home, install the appliances, there are some provisions that lead me to believe that states like South Dakota and others currently don't have any contractors that would qualify. So, this is more sort of the accreditation requirements that would be necessary in working with industry leaders across the country, particularly in rural areas. We are dealing with professionals in the industry who already go through and have a lot of professional certifications and accreditations already.

I just encourage you to ensure that the program is open to a broad universe, whether it is the current program you are implementing, or this program as we work through the legislative proc-

ess, a broad universe of qualified contractors because I think that is essential to the success of the program in rural areas.

Ms. ELGOHARY. H.R. 4785 does provide for funding for RUS to let a contract that would look at measures of verification, training, and certification opportunity.

Ms. HERSETH SANDLIN. Thank you.

The CHAIRMAN. The chair thanks the gentlewoman and recognizes the gentleman from Tennessee, Mr. Roe.

Mr. ROE. Thank you, Mr. Chairman, for allowing me to be here today and the Ranking Member. I appreciate the opportunity. And one of my jobs before I got here was Mayor of the City of Johnson City, Tennessee, and we were voted green city of the state and won the national EPA award. We heat and cool our VA with methane from our landfill. We have been very aggressive in green policy. We had the first recycling program 20+ years ago in the state, downsized all of our police vehicles, and so forth, and did an energy audit. And my question, Mr. Kissell and Mr. Thompson, brought up two great points. We brought in a private company and they did an energy audit on every single building we had, schools, every public building, 44 of them, and identified enough energy savings to do $11 million rehab with no taxpayer dollars being spent whatsoever.

I think what Mr. Kissell brought up was if you get a very marginal, even not measurable benefit, is it worth doing and how do you make that determination because this particular program should run on no money. If you do it right, there should be enough energy savings that would net out a zero for the taxpayers. Do you have a way to measure that? I think Mr. Thompson also had a very similar question. Are there systems—I know you got around it a little bit, but is there any way we can actually measure that?

Ms. ELGOHARY. I don't know the answer to that question but I will be glad to get back to you on it.

Mr. ROE. The reason that is important is because the taxpayers at home, they enthusiastically endorsed what we were doing because they knew that it wasn't just a pipe dream that we were going to maybe do something, they actually saw it in real green in dollars. We actually made money from these things that we did. I think that is a critical part of this. When you rehab homes if there are no savings, what is the point in putting another heating unit in if it doesn't save any money if you spend a lot of taxpayer dollars doing it. I think we should be able to do that. I think Ms. Herseth Sandlin brought a great question up.

The home builders association at home had the LEED certified building contractors, and these are green certified contractors, and you know that you are getting a bang for your buck when you have one of these contractors. Do you have anything in there that—and again the question was brought up a moment ago when this work is done do you know you are getting the right effect for the money you are spending? In other words, is somebody putting the windows in and doesn't know what they are doing? Is there anything in this bill that says you need to be LEED certified to do this?

Ms. ELGOHARY. The bill does provide for RUS to let a contract to be able to do exactly that, certify these contractors so that we know the work that is being done at the home is done properly.

Mr. ROE. So you need to be a LEED certified contractor to be able to do this work?

Ms. ELGOHARY. I don't know if it is LEED certified, but there is a certification that is required as part of being a contractor to implement energy efficiency at the home.

Mr. ROE. Okay. And, of course, a lot of these efficiencies will depend on what the cost of a kilowatt hour of power is. Obviously, however you generate your power the more expensive it is, the more your savings will be. Is there anything in this bill as far as replacement of bulbs and that sort of thing in a home which also use a lot of—is that in there also?

Ms. ELGOHARY. It doesn't identify the type of energy improvement that is required, energy efficiency improvement, but it does speak to that it is a permanent fixture. They would not be able to borrow the money for an appliance, but for any kind of permanent fixture to the home such as caulking, insulation, heating, air conditioning units.

Mr. ROE. Thanks very much. I yield back, Mr. Chairman.

The CHAIRMAN. The chair thanks the gentleman and recognizes the gentlewoman from Pennsylvania, Mrs. Dahlkemper.

Mrs. DAHLKEMPER. Thank you, Mr. Chairman, and thank you, Ms. Elgohary. I want to ask you a little bit about the Energy Resource Conservation Program. You mentioned it in your testimony. I was hoping that you could maybe elaborate a little bit on the program, exactly what does it do, who are those 43 agreements with, and also you talked about the pool of loans declining, so I want you to expand on that, please.

Ms. ELGOHARY. The Energy Resource Conservation Program is an extension of existing authority that we have in the Act. The Act basically says that the Secretary can defer principal or interest payments. The regulations go a bit further and specify that these deferments are on principal and for the purpose of energy conservation. The 34 agreements are with borrowers across the country. I can certainly provide a list of what borrowers specifically participate. The borrowers sign a 2 year agreement with the RUS. Only we identify for the borrower what loans are eligible for the deferments. Basically the loans that are eligible to be deferred over that 7 year period are direct RUS loans, so our funding for the last 3 years has been mostly Federal financing bank loans, which are guaranteed by RUS. It is not a direct RUS loan. Those would not be eligible for the deferment and that is why I mentioned the decline in borrower participation.

Mrs. DAHLKEMPER. So to what do you attribute the lack of interest?

Ms. ELGOHARY. Lack of interest would be measured at the individual co-op. It is whether or not they want to implement the energy efficiency program. The pool of deferments, the pool of loans that would be eligible for deferments is declining because we haven't received funding since 2007 for any kind of direct RUS loan.

Mrs. DAHLKEMPER. Okay. That clears it up. Thank you. I appreciate that. If a qualified customer defaults on a loan in H.R. 4785, who will have to be on the hook for that?

Ms. ELGOHARY. Our borrower, the RUS electric borrower, would still be responsible to make their debt service payments to RUS so the battle would be between the consumer and the utility.

Mrs. DAHLKEMPER. Okay. And I guess in that line of questions, if someone makes these improvements to their home and then they move, they sell the property, what happens in that instance? Is it still the original borrower?

Ms. ELGOHARY. The loan stays with the home so it would either be a selling point in the cost of that home when it sold, or I would assume the consumer could have the option to pay off that loan at the utility.

Mrs. DAHLKEMPER. If they don't pay it off then it goes to the new owner?

Ms. ELGOHARY. It goes with the new homeowner.

Mrs. DAHLKEMPER. Okay. That is clear. And my last question is will you be able to carry out the provisions of the legislation with the existing personnel?

Ms. ELGOHARY. We will do the best we can with the resources we are provided.

Mrs. DAHLKEMPER. So at this point there is no plan on increasing personnel for administering this?

Ms. ELGOHARY. Not at the Administration level.

Mrs. DAHLKEMPER. Okay. I yield back. Thank you, Mr. Chairman.

The CHAIRMAN. The chair thanks the gentlewoman. The gentleman from Louisiana, Mr. Cassidy.

Mr. CASSIDY. A couple questions: When I moved into my house 20 years ago, fixed it up, there was actually a loan program that our local co-op would give for me to get a heat pump, and I could pay it back on my note, and so it turns out I am not with the co-op of somebody else, but it just reminded me of that being in place 20 years ago. My staff and I pulled up a little thing of all these programs that co-ops are already doing, programs such as we are describing, as best I can tell about Federal subsidy. So my co-ops came through and I talked to them about it. They are a member of the program. And they were purchasing from a merchant power plant and they found it in the interest of their bottom line to encourage conservation relative to purchasing from the merchant power plant.

I am sure I have a couple details wrong but the concept is correct. So I guess my question is why do we need to insert the Federal Government into this when indeed the co-ops may find it good for their bottom line to do it anyway from existing revenue?

Ms. ELGOHARY. I would agree that the co-ops would be able to do this in some cases, but to be able to implement it on a system wide scale, take into consideration the marketing, training, retraining and IT systems that would have to be implemented to be able to measure the benefits of an energy efficiency program, H.R. 4785 would support all of those efforts.

Mr. CASSIDY. Now I oppose the cap-and-trade but clearly the Administration is heck bent upon creating a price on carbon. Now it seems as if we are doing something which if carbon is priced as high as the Administration wants to price carbon then again it would be very advantageous for a co-op which buys a lot of coal to

attempt to encourage their members. So, having heard what you just said in the circumstance of carbon priced where it is now, I am going to ask you to answer the question again if the price of carbon through taxes or through offset programs increases by 20 percent if that answer would still hold—just like when I moved into Louisiana 20 years ago the utility found it reasonable to subsidize my heat pump because they would save money thereof.

Does that question make sense? If the Administration is successful by taxing carbon 20 percent either through a direct tax or through cap-and-tax, will that change the business models so that the co-op again would now find it profitable to encourage conservation to absorb the cost themselves, as opposed to again the Federal Government being involved.

Ms. ELGOHARY. I believe so, but an important point to make is that co-ops generally have very low equity and operate on a very thin margin. In most cases they don't have the general funds or cash available to be able to implement a large scale energy efficiency marketing and implementation.

Mr. CASSIDY. Now my club just came up and I was moving out of my office and looked like a bum eating a bagel and they recognized me anyway or maybe because of it. I sat and talked with them and they actually still have some conservation program, great conversation, some programs that are still ongoing where they shut off the electricity, the air conditioner for 15 minutes during the hot part of the day, and somehow they are still very conscious of this. Now they are a great company, DEMCO, but again they seem to be doing this independently. I asked them was the Federal Government giving you money and they said, no, we did this on our own. So, again it almost seems like we are making them a ward of the state when indeed they seem to be able to accomplish this independently.

Ms. ELGOHARY. I think some of them do and can, and some of them do need an incentive to be able to implement it at such a large scale. RUS as part of the loan review and approval process does require the borrowers to look at demand side management, energy efficiency and alternatives to building the more expensive maybe higher risk capital infrastructure on base load. So as part of our review and approval process, we do require that all borrowers consider and provide to us their energy efficiency and demand side management programs. I would be glad to provide you a list of all the borrowers and the efforts that they do.

Mr. CASSIDY. I have this kind of outline here, and there are heat pumps, and somebody mentioned light bulbs, which we know can be very cost saving, caulking, *et cetera.* Some of those seem like they would be fairly low cost and wouldn't require tremendous capital investment on the part of the co-op. It would just be an encouragement, hey, listen, why don't you use fluorescent bulbs and get rid of those old incandescent if you still have them, and you could achieve a significant savings. By the way, I think the concept is great. I am just wondering if we need to have the Federal Government involved, or if the market won't be able to address it particularly if the Administration is successful at capping and taxing carbon emissions. I yield back. Thank you.

The CHAIRMAN. The chair thanks the gentleman. Ms. Elgohary, thank you very much for your testimony today. And we would now like to welcome our third panel, the Honorable Glenn English, CEO, National Rural Electric Cooperative Association; Mr. Charles Adams, Chief Engineer and Director of Government Affairs, A.O. Smith Corporation, Milwaukee, Wisconsin; Mr. Scott Bates, Corporate Vice President, General Counsel, and Secretary, Rheem Manufacturing Company, Atlanta, Georgia; Mr. Paul Bony, Director of Residential Market Development, ClimateMaster, Oklahoma City, Oklahoma; Mr. Jon Cowan, President, Third Way, Washington, D.C. Mr. English, when you are ready, you may begin.

STATEMENT OF HON. GLENN ENGLISH, CEO, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION, ARLINGTON, VA

Mr. ENGLISH. I am delighted to be back with the Subcommittee and have an opportunity to visit with the Members, and, certainly, talk about an issue that is very dear to my heart, which is, namely, electric cooperatives, and the work that we are doing to deal with the changing times. I want to try to touch on a couple perspectives perhaps that haven't been addressed either by the testimony, or by the questions of the Members. There are a couple of things that are important for us to understand so we are all operating from the same place. Electric cooperatives are not for profit. We are not for profit, and we are actually owned by the consumers themselves, so that is where we are coming from and that is where our focus is. Seventy-five years ago yesterday Franklin Roosevelt signed the Executive Order creating the REA.

Many look at the REA as being the creation of an infrastructure, wires and poles, and certainly we have a great deal of it. Forty-two percent of the distribution system of this country is owned by actually 12 percent of the population of the country, and we have to maintain it, so it is a very expensive proposition, no question about it. But our overall objective and the purpose of signing that REA Executive Order was to provide consumers of this country that are served by electric cooperatives, borrow money from the REA, affordable electric power, and that is where our focus is.

I think you will see from my testimony that many of the members of electric cooperatives across this country, their income is less than the national average. We have a far higher percentage of people whose income is less than that, so many of the programs that you have talked about, you focused on and discussed here today are programs that require consumers to put the money up front. You have to spend something and then later the Federal Government will give you a rebate, or you can take some other kind of action that you have to then get reimbursed for. And many of the consumers that we have, many of those people who have the least efficient homes, are people who, quite frankly, can't afford that. So, as you look demographically as far as the country is concerned, you will find that the potential for the greatest savings in many cases are the people that have the least amount of money, have the least efficient homes. And that is something that we have to keep in mind as we move forward.

The second point I would like to make to you, this is not the first time we have gone through this policy shift by our government, as far as energy is concerned and particularly as far as fuels are concerned. When I was with this body in 1978, we had something called the Fuel Use Act that was passed. My home State of Oklahoma, we had a huge amount of natural gas. And I remember a generating plant in my district that had a natural gas well less than a mile away and they were supplying that generating plant with natural gas. But, we determined at that particular time, the government did, that we were running short of natural gas and, therefore, we needed to switch off of natural gas for generating electricity. We started going through this transition of changing that plant over to coal-fired and started shifting coal from Wyoming to Oklahoma to generate electric power.

We also had a little problem with Three Mile Island, that some of you probably have heard about and maybe recall, and at that time we had a lot of new plants that were being built that were nuclear. And due to the shift and changes that we had as far as rules and regulations, it made those plants really so expensive that they were unaffordable and many of them never were completed. So much was shifted in the way of fuel into coal at that time. Now we are addressing another issue. We are making another fuel shift and basically that without question is going to have a dramatic impact with regard to consumers, much as what we found back in the late 1970s and early 1980s. It is an expensive proposition to make this shift is the point.

And many of us recall, certainly I did when I was a Member of Congress, having town hall meetings having people coming to me angry about their electric bills, the increases that they saw. I know many of our cooperatives went though that same kind of an experience. My point being we ought to learn from history here and take advantage of that. The one thing that we can do today to help prepare consumers in this country, certainly those who are electric coop members, give them the opportunity to take some of the edge off of that transition cost. Give them the opportunity to hold down their electric bills as much as they possibly can, and, certainly, the least expensive way of doing that is through a loan program that would enable even those who, quite frankly, have less wealth than many others in this country, and who can gain the most through efficiency. Give them the opportunity to make that conversion and to do so at very little cost.

Now what we have discussed here today, and we need to underscore and point out, is the cooperative is on the hook for this loan. This is a loan to the cooperative, not to the consumer. It is up to the cooperative to make certain that the money is spent in such a way that it will provide the efficiency, because it is only through that efficiency where those loans would be paid back. And in the end, it is the cooperative's reputation that is on the line. It is the cooperative itself that will be making the determination as to whether or not the people are satisfied with the work that is done by those contractors, and making certain that we have contractors that do a good job that are employed to carry this work out.

In short, this is a win-win proposition all the way for everyone. It helps government meet its objectives and policies, namely, pro-

moting efficiency in this country. It helps electric cooperatives avoid building power plants, which is one of the more expensive options that we have available and, number three, it helps consumers with their electric bills, your constituents, keeping those electric bills as affordable as we possibly can. Thank you very much. Mr. Chairman, for letting me testify today. I will be happy to answer questions. I hope my entire testimony will be made part of the record.

[The prepared statement of Mr. English follows:]

PREPARED STATEMENT OF HON. GLENN ENGLISH, CEO, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION, ARLINGTON, VA

I thank you for inviting me to provide the views of electric cooperatives on the Rural Energy Savings Program Act (RESPA), H.R. 4785. It is an honor to appear before the House Agriculture Committee again.

The National Rural Electric Cooperative Association (NRECA) is the not-for-profit, national service organization representing nearly 930 not-for-profit, member-owned, rural electric cooperative systems, which serve 42 million customers in 47 states. NRECA estimates that cooperatives own and maintain 2.5 million miles or 42 percent of the nation's electric distribution lines covering ¾ of the nation's landmass. Cooperatives serve approximately 18 million businesses, homes, farms, schools and other establishments in 2,500 of the nation's 3,141 counties.

Cooperatives still average just seven customers per mile of electrical distribution line, by far the lowest density in the industry. These low population densities, the challenge of traversing vast, remote stretches of often rugged topography, and the increasing volatility in the electric marketplace pose a daily challenge to our mission: to provide a stable, reliable supply of affordable power to our members—including constituents of many Members of the Committee.

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. The challenge of providing affordable electricity is critical when you consider that the average household income in the service territories of most of our member co-ops is below the national average income by over 14 percent. A major challenge facing electric cooperatives is how to help their consumers invest in energy efficiency improvements of their homes and businesses so that they can save money in the short run, and also help their cooperatives avoid the long-term costs and environmental impacts of building new electric infrastructure that could be avoided through efficiency savings.

New RUS Program to Meet Greater Need for Efficiency Savings in an Austere Budget

Electric cooperatives were born in the adverse economic times of the Great Depression 75 years ago, when the Federal Government created the Rural Electrification Act (REA) loan program. The combination of Federal loans and the determination of rural people to create viable utilities that would increase their quality of life resulted in one of the longest lasting and most successful economic initiatives ever mounted in the United States. At its very core, the REA was and still is a self-help program. It was bold to create such a program at the height of the Great Depression, but it worked. Now called the Rural Utilities Service (RUS), the Congress has continued to authorize these loans to not-for-profit utilities to build and maintain a highly reliable electricity infrastructure that includes distribution, transmission and generation facilities.

Although efficiency investments have always been part of the culture of the electric cooperatives and part of the RUS mission, the authorization of energy efficiency loan programs under Section 6101—"Energy Efficiency Programs" of the Food, Conservation and Energy Act of 2008 ("Farm Bill") recognized that efficiency investments are now a key component of providing electricity services to consumers of RUS borrowers. However, the current RUS loan program is already oversubscribed just to meet basic infrastructure needs of RUS electric utility borrowers.

Currently, the cost of loans to the electric cooperative is the Treasury rate plus ⅛ of 1 percent. Many cooperatives provide efficiency help in the form of rebates and, in some cases, financing for consumers. A barrier for electric cooperatives is that they have limited financial resources available to provide these services on a

large scale. And the cost of the current loan program would make the interest rates that the cooperatives would have to charge a major barrier for many of the consumers that cooperatives serve.

In July 2009, McKinsey & Company published a major report on how to unlock energy efficiency in the U.S. economy and capture unrealized energy efficiency potential. We agree with much of their analysis about the barriers that must be overcome and this proposed new Federal program was structured to address these barriers. A major barrier is the up-front costs of the upgrade which is beyond the reach of most consumers—even if the cost can be totally recovered over time or the initial price is reduced by a tax credit or rebate.

Another consumer barrier the McKinsey report documents is the lack of consumer awareness about what technologies are cost effective. Further, McKinsey's review of programs that work documents the need for third-party involvement that could support a "do-it-for-me" approach that addresses all of the non-capital barriers as well. The Rural Energy Saving Program Act was designed specifically to address these barriers while minimizing the impact on the Federal budget.

This proposal utilizes the current RUS loan procedures, instead of creating new Federal infrastructure. The program is primarily a loan program in which the electric cooperatives assume 100 percent of the risk of providing efficiency loans to consumers and for repaying the Federal Government. While the program does have a relatively small grant component (equaling no more than four percent of the loan to a cooperative to offset costs for initiating the program), the overwhelming component of RESPA is a $4.9 billion loan program.

The electric cooperatives already have the billing systems in place to allow the consumer to repay the loan on their electric bill. National consumer satisfaction surveys consistently show that electric cooperatives rate the highest in satisfaction among all of the utility sectors. Overwhelmingly, our consumers trust their cooperatives to provide high quality services, and this trust would be called upon to allow the cooperatives to oversee the installation of quality efficiency upgrades for their consumer-members. The electric cooperatives have strong, established consumer communication programs and can get the information out about the efficiency opportunities that would be provided by this program. Cooperatives have created several centralized data and billing operations that will allow them to track the energy usage before and after the installation of energy efficiency upgrades by consumers.

This program will be cost effective because RESPA has a stringent cost-benefit requirement in that any investment in efficiency retrofits must substantially be able to pay for itself in energy savings in 10 years or less. This rule would preclude efficiency technologies that are not cost effective within a 10 year period. This requirement will also help build market pressure to bring costs down for efficiency technologies that are currently very expensive. RESPA allows the initial set of technologies that the cooperatives submit in their RUS loan applications to be amended when information can be provided that new technologies can meet this cost-benefit test.

This cost-benefit rule will allow the cooperatives to reduce the energy bills of consumers enough to both give the consumers a small savings below their current cost of energy each month *and* allow them to pay off their consumer loans provided by the electric cooperatives at low, but no more than three percent, interest within a 10 year period. Because the cooperatives are responsible for paying back the Federal loan, they have an enormous incentive to make sure that the program works, that the savings promised occur and that their consumer owners get the value promised.

The cost-benefit test means that not every efficiency technology on the market will be used. The program is focused only on upgrades that are part of the structure of a home or business that is in the cooperative service territory because a significant goal of the program is to reduce the need for new expensive investment in new electric infrastructure, while supporting the obvious job-creation for contractors and equipment manufacturers.

This program is not targeted at such things as energy efficient appliances, but rather on very cost-effective improvements like HVAC systems, heating boilers, geothermal systems and high-rated insulation to the "building envelope" of the structures. Note that this proposed legislation targets "energy" savings, not just electricity savings. As a result, it is possible that "electricity" usage and consumer bills will go up but overall energy usage and bills will go down significantly more. An example of this case would be if a cooperative decides to include in their program the replacement of old inefficient oil furnaces with high efficiency geothermal systems or heat pumps.

The program will not cover the costs to the electric cooperative that decides to implement energy efficiency activities through RESPA in the short-term. The initial costs will be spread across all consumer-owners of the electric cooperative for the

purposes of lowering their costs in the long-term by avoiding the cost of new expensive electricity infrastructure. Other than the profit that will be taken by manufacturers and contractors, the "do-it-for-me" role of the electric cooperatives will be done in accordance with our not-for-profit business model whose central purpose is to provide affordable electricity to undergird the quality of life and economic vitality of the communities we serve. This is a new chapter in the successful history of the mission of RUS in partnership with the electric cooperatives.

Electric Co-ops Are Committed to Energy Efficiency

The not-for-profit business model encourages cooperatives to use all cost-effective methods to keep electricity affordable for the consumers who own the cooperatives. Rising costs of new generation resources mean that efficiency is often the "least-cost" generation resource. A commitment to increase the quality of life for consumers makes efficiency investments an important priority.

Co-ops' engagement with energy efficiency has resulted in the following achievements:

- Cooperatives serve only 12 percent of the nation's consumers but are responsible for nearly 25 percent of the nation's residential peak load management capacity.
- 96 percent of cooperatives operate an efficiency program.
- 70 percent of co-ops offer financial incentives to promote greater efficiency.

Cooperatives support Federal incentives to remove barriers so efficiency investments can be maximized. For example, NRECA supports extensions of consumer efficiency tax credits, increased Federal investment in advanced energy technologies, and strengthened efficiency of hydropower projects and other existing generation. In the Energy Investment and Security Act of 2007, NRECA supported a national efficiency model building code. In 2008, NRECA called for a massive investment in weatherization for the poorest fifth of U.S. households. A Federal program is needed that would maximize the cooperative delivery system and provide some additional support for the tough job of capturing efficiencies in rural communities.

Co-op Consumers Need a New Efficiency Program Tailored to Their Needs

In 2010, the convergence of energy policy and Federal efforts to create jobs has yielded several energy efficiency proposals aimed at encouraging consumers to make energy efficiency investments. Popular mechanisms in these proposals include access to lower-cost capital, equipment and materials rebates or tax credits. NRECA believes these proposals have a great deal of merit. However, none of them quite fit the demographics of the people and areas typically served by electric cooperatives.

Nationally, ⅔ of the electricity distributed by cooperatives is delivered to homes, farms and ranches, with the remainder going to commercial and industrial businesses. In comparison, other electricity sectors' loads are ⅔ commercial and industrial businesses. One out of seven people served by cooperatives lives below the Federal poverty line. The average cost ($1,500 and up) of transformational energy efficiency upgrades has deterred many co-op consumers from making their homes and businesses more efficient.

Co-op consumers often can see striking reductions in energy usage when aggressive efficiency measures are applied. However, there are many barriers. Many consumers lack enough disposable income, adequate access to information about cost-effective efficiency measures or knowledge of trusted contractors to do the work.

These concerns were the springboard for the introduction of legislation creating the Rural Energy Savings Program Act this spring. RESPA would provide electric cooperative consumers with low-cost financing for energy efficiency improvements to homes and businesses that hold the potential of delivering enough savings in energy costs to substantially repay the loan in no more than 10 years.

A New Proposed RUS Lending Program Will Boost Co-ops' Efficiency Efforts

RUS Loans and "Jump-Start" Grants

Under this proposed legislation, the U.S. Department of Agriculture (USDA) Rural Utilities Service (RUS) will administer the loan program at the heart of RESPA. RUS will be able to issue $4.9 billion in 10 year, zero interest loans to individual co-ops or state-based groups of co-ops to fund low-interest (no more than three percent) loans to consumers and businesses. A co-op borrower can also tap a "jump-start" grant of no more than four percent of the loan amount to defray costs of providing service to the first consumers until the cooperative receives loan funds.

RUS will use its existing procedures to approve loans and advance funds. In accordance with current practice in RUS electric programs, no loan funds will be advanced on approved loans until the co-op borrower submits documentation of work completed for the approved purposes of this program.

Every RESPA dollar loaned by RUS to a cooperative will be repaid within 10 years after the cooperative re-lends the funds to the consumer. There is zero risk to the Federal Government for consumers' repayment because the co-op will absorb the risks of the payment of consumer loans. Further, the participating co-op will have to expend its own funds to set up and manage the program in the same way cooperatives outlay funds to pay for the costs of adding new generation.

This legislation authorizes ten new positions for the Rural Utilities service. RUS is a very small but capable agency, which has seen its staff reduced by 25 percent over the last 15 years. But, this agency has, through the work of dedicated Federal employees, maintained the RUS mission. The addition of these positions recognizes the demands that will be placed on RUS staff and the important role of this small but critical energy-related agency within the U.S. Department of Agriculture.

Co-ops and Consumers Will Work Together to Use RESPA Funds Wisely

The cooperative applicant will specify the efficiency measures it intends to implement and the expected savings for consumers. When a RUS loan is approved, the co-op, in turn, will provide low-interest micro-loans to consumer residences or businesses if an energy audit indicates potential for significant energy savings.

Typical consumer loans will be $1,500 to $7,000, and will cover sealing, insulation, HVAC systems, boilers, roofs, and other improvements co-ops can demonstrate will produce sufficient savings. Consumer loan amounts from the co-op may only be used to make energy efficiency improvements to fixtures that convey with the house or business dwelling. Loans may not be used for appliances that do not convey with the structure, such as refrigerators or window AC units.

Participating consumers will repay the co-op for the installation and material costs through an extra charge on their utility bills within no more than 10 years. 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 continue to save on energy bills, potentially hundreds of dollars annually.

Ensuring a Culture of Accountability

As part of standard RUS procedure, every RESPA loan recipient will annually provide to RUS:

- Evidence of no self-dealing.
- Review of program effectiveness as defined by measurement and verification results.
- Efficiency contractor qualifications.

A grant will fund a program-wide measurement and verification system to track quality control and savings for the 10 year loan period. A training program will be established, funded by a $2 million grant, to provide utility auditors with information about how to implement the measurement and verification of savings, how to establish contractual relations with efficiency upgrade contractors, and how to assist consumers receiving efficiency upgrades.

Pilot Programs Will Ensure Quick Start and Strong Program

The first cooperatives applying for loans are to be considered "pilot" projects to allow more rapid internal RUS movement as well as to establish what works and what does not work.

Cost-Effective RESPA Will Create Jobs

The total cost is $993 million for a 10 year, $4.9 billion consumer loan program, consisting of:

- $755 million in budget authority for the $4.9 billion in zero interest loans to cooperatives.
- $200 million for the grant fund to provide jump-start funds.
- $1.1 million annually for ten additional RUS staff.
- $2.5 million annually to fund measurement and verification systems to ensure that improvements are installed as contracted and projected energy savings are achieved.
- $2 million one-time-grant to train electric co-op personnel to develop and implement the consumer-level efficiency loan programs.

This proposal will create or save an average of 20,000 to 34,000 additional jobs *each* of the 10 years of the program.

Conclusion

Again, thank you for the opportunity to testify at today's hearing. The electric cooperative industry faces many challenges, including developing a viable way to provide large-scale consumer access to efficiency savings. However, the cooperative business model and the public-private partnership with RUS make cooperatives well-equipped to find innovative solutions. NRECA looks forward to working with Members of this Committee.

The CHAIRMAN. Without objection. Thank you, Mr. English. Mr. Adams.

STATEMENT OF CHARLES ADAMS, CHIEF ENGINEER AND DIRECTOR OF GOVERNMENT AFFAIRS, A.O. SMITH CORPORATION, MILWAUKEE, WI

Mr. ADAMS. Good morning, Mr. Chairman, and Members of the Subcommittee. My name is Charlie Adams, and I am the Chief Engineer and Director of Government Affairs for A.O. Smith Corporation. Founded in 1874, A.O. Smith is the largest manufacturer of residential and commercial water hearing equipment in North America, employing nearly 16,000 employees worldwide. The corporation is a global leader in providing innovative energy-efficient water heating products in more than 60 countries around the world, including solar heat pump, and gas hybrid water heaters, and including the highest efficiency natural-draft gas storage water heater on the market today.

A.O. Smith appreciates the opportunity to testify before the Subcommittee today regarding the Rural Energy Savings Program Act, H.R. 4785. We believe this legislation is well-structured and timely and will help maintain and create jobs across the entire value chain of the U.S. manufacturing sector. For A.O. Smith this would include our water heater manufacturing operations in South Carolina, Kentucky, North Carolina, Washington, and Tennessee, as well as our Electrical Products Company operations in Ohio and Kentucky.

The headquarters of our Water Products Company in Ashland City, Tennessee, was unfortunately affected by the serious flooding in the Nashville area last week. A large portion of that facility's production has been temporarily relocated to our Johnson City, Tennessee facility, which is ably represented by one of the Agriculture Committee Members, Mr. Roe. I would like to focus my testimony today on the benefits of H.R. 4785, how energy efficient water heaters can play a role in reducing energy usage in rural America, and the importance of ensuring that the most energy efficient products on the market will qualify under the Rural Energy Savings Program. H.R. 4785 represents an important means to both save energy and create and sustain U.S. manufacturing jobs. According to the American Council for an Energy Efficiency Economy the United States can cost effectively reduce energy consumption by 25 to 30 percent or more over the course of the next 20 to 25 years through energy conservation measures.

In addition, the U.S. manufacturing sector, which has been hard hit in the recent recession, will benefit from this bill as an important driver of job growth in the energy efficient plants manufacturing sector. Congress has previously established tax credit and

other incentives to promote green building and the use of energy efficient technologies, but the needs of rural America are unique and require programs specifically designed to encourage the participation of rural homeowners and small businesses, many of whom are low income as has been mentioned in the implementation of these energy efficient retrofits. H.R. 4785 strikes the right balance in providing meaningful incentives for rural consumers to implement these retrofits, while ensuring that the program participants can easily access the financing that many of them need to be able to update their facilities.

These retrofits will provide energy savings and cost savings to rural consumers. Most importantly, the legislation does not prescribe which specific products will qualify under the program. Rather, it allows consumers and rural utilities to choose which products will both serve their needs and save energy by enabling manufacturers to compete in a level playing field for those consumers business. This legislation helps ensure that the best energy value products will be installed in rural homes and small businesses across the country. Water heating is estimated to be the second largest user of energy in the typical American home after space conditioning. As such, currently available off the shelf energy efficient water heating technology offers the low-hanging fruit to all users of water heating equipment who want to reduce their energy usage.

The reductions in energy consumption that can be achieved quickly by removing older heaters and installing new highly efficient heaters are sizable. The Subcommittee and full Committee works to maximize the benefit to rural consumers. We urge that the final bill ensure that the Rural Energy Savings Program is sufficiently coordinated with the other incentive programs such that all highly efficient water heaters are eligible. Specifically, it is important that eligible products are not limited to those that qualify under the Environmental Protection Agency's ENERGY STAR® program. I have more details on this topic in my written testimony for your reference, and A.O. Smith would be pleased to work with the Subcommittee on this issue as you continue your work on H.R. 4785.

A.O. Smith greatly appreciates the work that Congressmen Clyburn and Whitfield have done to craft this bill, and we are anxious to work with the Subcommittee to advance this important legislation. We have no doubt that the Rural Energy Savings Program would be of significant value to rural homeowners, small businesses, and manufacturers like A.O. Smith who employ thousands of U.S. workers dedicated to manufacturing the most energy efficient appliances on the market. Thank you.

[The prepared statement of Mr. Adams follows:]

PREPARED STATEMENT OF CHARLES ADAMS, CHIEF ENGINEER AND DIRECTOR OF GOVERNMENT AFFAIRS, A.O. SMITH CORPORATION, MILWAUKEE, WI

Good morning, Mr. Chairman, and Members of the Subcommittee. My name is Charlie Adams, and I am Chief Engineer and Director of Government Affairs for the A.O. Smith Corporation. Founded in 1874, A.O. Smith is the largest manufacturer of residential and commercial water heating equipment in North America, employing 15,350 employees worldwide. The Corporation is a global leader in applying innovative technology and energy-efficient solutions to products sold in more than

60 countries around the world, including solar, heat pump, and gas hybrid water heaters, along with the highest efficiency natural-draft residential gas storage water heaters on the market.

A.O. Smith appreciates the opportunity to testify before the Subcommittee today regarding the Rural Energy Savings Program Act, H.R. 4785. We believe this legislation is well-structured and timely and would help maintain and create jobs across the entire value chain of the U.S. manufacturing sector. For A.O. Smith this would include our water heater manufacturing operations in South Carolina, Kentucky, North Carolina, Washington, and Tennessee, as well as our Electrical Products Company operations in Ohio and Kentucky. The headquarters of our Water Products Company in Ashland City, Tennessee, was unfortunately affected by the serious flooding in the Nashville area last week, and half of that facility's production has been relocated to our Johnson City, Tennessee facility, which is ably represented by one of the Agriculture Committee's Members, Congressman Phil Roe.

I would like to focus my testimony today on the benefits of H.R. 4785, the meaningful role that energy-efficient water heaters can play in reducing energy usage in rural America, and the importance of ensuring that the most energy-efficient products on the market will qualify under the Rural Energy Savings Program.

H.R. 4785 Will Produce Meaningful Energy Savings and Support U.S. Manufacturing Jobs

H.R. 4785 represents an important means to both save energy and create and sustain U.S. manufacturing jobs. Installation of energy-efficient technologies plays a key role in our national effort to reduce energy usage. According to the American Council for an Energy Efficiency Economy (ACEEE), the United States can cost-effectively reduce energy consumption by 25–30% or more over the course of the next 20–25 years through energy conservation measures. In addition, the U.S. manufacturing sector has been hard hit by the recent recession, and this bill will be an important driver of job growth in the energy-efficient appliance manufacturing sector which stands ready and able to meet heightened demand for our products from rural consumers.

Congress has previously established tax credits and other incentives to promote "green" building and the use of energy-efficient technologies. Yet the needs in rural America are unique and require a program specifically designed to encourage the participation of rural homeowners and small businesses, many of whom are low-income, in the implementation of energy-efficient retrofits. H.R. 4785 strikes the right balance in providing meaningful incentives for rural homeowners and small businesses to implement energy-efficient retrofits, while ensuring program participants can easily access the financing that many of them need to update their facilities. In the end, the implementation of these retrofits will provide energy savings to rural consumers—a cost savings that is critical for many families and businesses in this recession.

Most importantly, the legislation does not prescribe which specific products will qualify under the program; rather, it allows consumers and rural utilities to choose which products will best serve their needs and meet energy efficiency goals. By enabling appliance manufacturers to complete on a level playing field for consumers' business, this legislation helps ensure that the most energy-efficient, highest-quality, and greatest-value products will be installed in rural homes and small businesses across the country—producing significant energy savings for consumers and helping to reduce our nation's carbon emissions.

Energy-Efficient Water Heaters Can Provide Substantial Energy Savings in Rural America

Water heating is estimated to be the second-largest use of energy in the typical American home, after heating/air-conditioning. As such, currently-available, off-the-shelf, highly energy-efficient water heating technology offers "low hanging fruit" to all users of water heating equipment who wish to reduce their energy usage. The reductions in energy consumption that can be achieved quickly by removing older units and installing new, highly-efficient units are sizable. For example, if we were able to replace the estimated 100 million water heaters in residential use today with the most energy-efficient water heaters on the market, reductions in annual consumption of natural gas by water heaters could decrease up to 30%, and the reduction in annual generation of electricity to power water heaters would equate to the annual output of 21 large power plants. The greenhouse gas emissions reductions that could result from this shift would be equivalent to taking 30 coal-fired power plants offline.

As Congress debates the difficult issue of how best to reduce emissions from power plants and manufacturing facilities in the future, energy conservation

through replacement of outdated water heaters and other appliances remains a meaningful step that can be taken to reduce carbon emissions and U.S. energy usage today. Rural America can reap uniquely positive benefits from energy conservation, given that a majority of electric generation by rural electric cooperatives is coal-fired power generation. Thus, reducing energy usage in rural America through near-term energy-efficient retrofits is an important means of reducing carbon emissions from coal-fired plants.

H.R. 4785 Should Ensure Promotion of the Highest Efficiency Appliances

As the Subcommittee and Full Committee examine this legislation and seek to ensure its maximum benefit for rural homeowners, small businesses, and manufacturers, we urge that the final bill ensure that the Rural Energy Savings Program is sufficiently coordinated with current and future rural utility appliance rebate or energy-efficiency programs such that all highly efficient water heaters are eligible. Specifically, it is important that eligible products are not limited to those that qualify under the Environmental Protection Agency's ENERGY STAR® program.

Current Federal law does not uniformly rate the energy efficiency of all classes of water heaters. Depending on a water heater's gallon capacity and energy input rating, it may be covered under the National Appliance Energy Conservation Act (NAECA) of 1987 (P.L. 95–619) or the Energy Policy Act (EPAct) of 1992 (P.L. 102–486). If covered under NAECA, the water heater must be rated in energy factor (EF). If covered under EPAct, it must be rated in thermal efficiency (TE). While the distinctions created by these laws may have seemed practical in prior years, the water heating industry has changed sufficiently such that the existence of these two rating systems has become outdated, arbitrary, and most importantly, confusing to consumers. For this reason, there is strong industry and NGO support for changing Federal law to apply one uniform testing standard to all water heaters (see S. 2908, the Water Heater Rating Improvement Act of 2009).

Unfortunately, the ENERGY STAR® program only allows water heaters rated in EF to qualify for the ENERGY STAR® rating, despite the fact that there are now water heaters on the market rated in TE that are far more efficient than those rated in EF. This inherent problem with the ENERGY STAR® program has been perpetuated through subsequently-established state and utility rebate programs that use the ENERGY STAR® program as a model and thereby prohibit consumers from receiving rebates for many highly-efficient water heating products. These ENERGY STAR® standards are particularly restrictive when one considers that Section 25C of the tax code, intended to provide incentives for the installation of energy-efficient water heaters, provides a homeowner with a tax credit of up to $1,500 for the purchase of an energy-efficient water heater rated 90% TE or greater. Yet, in many states, a homeowner could not receive a rebate for such a water heater through local rebate programs, because the ENERGY STAR® program does not recognize the efficiency of TE-rated products. An additional weakness in ENERGY STAR® is that only electric heat pump water heaters are eligible, excluding electric storage water heaters rated as highly as 0.95 EF. This limitation is not reasonable or practical for the homeowner given that, per a recent analysis by the Department of Energy,[1] 40% of homes may not have sufficient space to accommodate an electric heat pump water heater. In rural areas, with typically smaller homes and manufactured homes, the percentage would be higher.

While the Agriculture Committee does not have jurisdiction over the ENERGY STAR® program or tax policy, it can ensure that rural utilities, when implementing H.R. 4785, do not simply limit product eligibility to those that are ENERGY STAR®-rated. Because some of the most energy-efficient water heaters on the market are not rated in EF, the Rural Energy Savings Program can only ensure maximum energy savings through the program by ensuring that products rated in TE will be deemed eligible for rebates by the rural utilities. Indeed, the Energy and Commerce Committee recognized the significant energy savings that can be gained from TE-rated water heaters when it included them in the rebate program established though the recently-passed Home Star Energy Retrofit Act (H.R. 5019). A.O. Smith would be pleased to work with the Subcommittee on this issue as you continue your work on H.R. 4785.

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[1] See the Final Rule Technical Support Document (accompanying the Energy Conservation Program Final Rule: Energy Conservation Standards for Residential Water Heaters, Direct Heating Equipment, and Pool Heaters, 10 CFR § 430 (2010)), Chapter 8, page 8–23, found at: *http://www1.eere.energy.gov/buildings/appliance_standards/residential/heating_products_fr_tsd.html.*

Conclusion

A.O. Smith greatly appreciates the work that Congressmen Clyburn and Whitfield have done to craft this bill, and we are anxious to work with the Subcommittee to advance this important legislation. Should this bill be enacted this year, we look forward to working with the rural utilities and state energy offices as this program is implemented in rural communities across the country. We have no doubt that the Rural Energy Savings Program would be of significant value to rural homeowners and small businesses and manufacturers like A.O. Smith who employ thousands of U.S. workers dedicated to manufacturing the most energy-efficient appliances on the market.

The CHAIRMAN. Thank you, Mr. Adams. Mr. Bates.

STATEMENT OF SCOTT D. BATES, CORPORATE VICE PRESIDENT, GENERAL COUNSEL, AND SECRETARY, RHEEM MANUFACTURING COMPANY, ATLANTA, GA

Mr. BATES. Good morning, Chairman Holden, Ranking Member Goodlatte, and Members of the Subcommittee. Thank you for the opportunity to speak with you today about H.R. 4785, the Rural Energy Savings Program Act. My name is Scott Bates, and I am the Corporate Vice President and General Counsel of Rheem Manufacturing Company, a leading global producer of water heaters, air conditioners, furnaces, pool heaters, and boilers. With our headquarters in Atlanta, we are proud to be a significant manufacturer and employer of thousands of market participants in the United States. Since our founding by the Rheem Brothers in California in 1925, we have provided good manufacturing, research and development, and distribution jobs. Offering quality products to our wholesale and retail customers our employment footprint extends to thousands more across the nation.

Rheem is an innovator and consistently designs increased efficiency into its products. In fact, Edwin Ruud, one of Rheem's forefathers, invented the tank type water heater used in the United States. As a result, we are very interested in legislation and government programs which incentivize the reduction of energy costs and increase the demand for energy efficient products. We believe that the Rural Energy Savings Program Act, in particular, is critically important because it lowers the cost of barriers for consumers to invest in energy efficient solutions, and to do so in partnership with rural co-ops will only enhance the program's success. Co-ops know what they are doing.

Rheem is proud to have substantial experience working with co-ops to offer its water heaters, air conditioners, furnaces, and heat pumps to the American public. Presently, we partner with nearly 300 co-ops across the nation and we work hard to bring them their energy efficient products to meet the needs of their customers. One such product is our non-metallic water heater, which we appropriately call the Marathon. It just keeps running. With a lifetime tank warranty, it is a popular product with co-ops because it goes the distance even in rural America where water quality may not always be optimal. The Rural Energy Savings Program would enable consumers to realize significant lifetime savings by lowering their ongoing energy expenses, and by smoothing out the up front cost for this kind of durable and efficient water heater which we design in Alabama and manufacture in Minnesota.

As you know, the availability of low interest financing through co-ops allow homeowners and small business to more readily afford cost-reducing and energy efficiency increasing products such as air conditioners, furnaces, heat pumps, and water heaters. Generally, for consumers the heating, cooling, and water heating costs represent the majority of their energy spent. We at Rheem take this seriously and consistently work to bend the cost curve for the consumer. This bill is an excellent answer to a real challenge. This Act encourages and assists consumers to purchase better products that will reduce their energy costs and improve their quality of life.

I commend the cosponsors on this Subcommittee for considering it today. This legislation will benefit consumers in the program and our country as a whole. The policy will improve our country's carbon footprint, reduce the cost of operation for small business, enable consumers to save money, and support job creation at a critical point in our economic recovery. In the words of Congressman Clyburn, this bill provides for energy conservation, job creation, and cost effective upgrades that will improve consumers' quality of life. There is such broad support for this initiative because it is a win-win-win proposition. We could not agree with him and his cosponsor, Congressman Whitfield, any more, and we strongly encourage Congress to move forward and establish the Rural Energy Savings Program.

In closing, I would like to note that this Committee has been writing agriculture policy for nearly 200 years. Members of this body have tackled critical energy and rural development issues. This is another important initiative. We are hopeful that working with your colleagues in Congress this bill can become law and provide savings to rural America. Toward that end, we look forward to working with you. Thank you for the opportunity to speak with you today, and I welcome any questions that you may have.

[The prepared statement of Mr. Bates follows:]

PREPARED STATEMENT OF SCOTT D. BATES, CORPORATE VICE PRESIDENT, GENERAL COUNSEL, AND SECRETARY, RHEEM MANUFACTURING COMPANY, ATLANTA, GA

Chairman Holden, Ranking Member Goodlatte, and Members of the Subcommittee, I would like to thank you for the opportunity to speak with you today about H.R. 4785, the Rural Energy Savings Program Act.

My name is Scott Bates, and I am the Corporate Vice President, General Counsel, and Secretary for Rheem Manufacturing Company (Rheem), a leading global producer of heating, cooling and water heating products.

Rheem was established in the mid-1920s when brothers Richard and Donald Rheem acquired a galvanizing plant in San Francisco, California. The company began manufacturing water heaters in the 1930s and reached coast to coast distribution of its water heaters by 1936. Rheem increased its product line to include space heating units for homes, oil furnaces, and air conditioners during the 1940s and 1950s. In 1959, Rheem acquired Ruud Manufacturing Company, a pioneer in the water heating industry and the manufacturer of a well-regarded product line with a distribution network throughout North America. In the following years, Rheem entered the heating and air conditioning market, and the company expanded in the late 1960s and 1970s with the rapid growth of the central air conditioning industry. In 1985, the company acquired Raypak, a leading producer of copper tube boilers used for swimming pool heating and commercial hot water supply and hydronic heating. Since then, Rheem has become a global market participant.

Rheem is a significant employer in the United States. The company's headquarters and corporate offices are located in Atlanta, Georgia. The company has a finished goods distribution center in nearby McDonough, Georgia, and has additional facilities in Fort Smith, Arkansas; Montgomery, Alabama; Oxnard, California; Arcadia, Florida; Eagan, Minnesota; Randleman, North Carolina; and Lewisville,

Texas. Rheem also has an international presence in such locations as Brazil, Canada, and Mexico.

Today, Rheem is a leading global producer of water heaters, central warm air furnaces and air conditioners, and swimming pool heaters and commercial boilers. The company is an engaged market player with a broad portfolio of products important to the public and our national energy efficiency goals. The range and variety of Rheem's product line offerings makes the company a one-stop provider for all heating, cooling and water heating solutions. Rheem's product offerings cover residential and commercial heating, cooling, conventional storage-style water heaters, tankless water heaters, solar water heating systems, geothermal heat pumps, non-metallic water heaters, replacement parts and accessories for all categories.

The company has consistently demonstrated a commitment to innovation and efficiency with its product offerings, and industry groups have lauded and recognized this commitment in recent years. The Rheem Passive Solar System Series received the 2009 MVP Award for Innovation and Efficiency from the Builder's Group, and the California-based Valley Electric Association awarded the company a 5,000 unit project for this solar technology. Rheem led the water heating industry in the development of Flammable Vapor Ignition Resistance (FVIR) technology. Rheem's hybrid electric heat pump water heater was one of the first integrated heat pump water heater to qualify for ENERGY STAR®, and the heater has received numerous awards and recognition: Green Builder Top 50 Best Products Award, *Architectural Record*—Top 10 Green Product, *Contractor* magazine Editor's Pick, Green Build Expo Award—Best Products Winner, and *Builder News*—Best Product 2009 Winner. And of particular relevance for today's discussion, Rheem's non-metallic Marathon water heater, manufactured in the company's Eagan, Minnesota facility, is offered to the cooperative market and offers a lifetime tank warranty.

Because of Rheem's demonstrated commitment to energy efficiency, the company is very interested in legislation and government programs which incentivize or facilitate the reduction of energy costs and increase the demand for and availability of energy efficient products. Government incentives that encourage investment in home energy efficiency are powerful tools to help support the American consumer and the industries that supply them. The Rural Energy Savings Program Act in particular is critically important to energy efficiency efforts because it lowers the cost barrier faced by consumers interested in investing in energy efficiency.

In doing so, the program would benefit every concerned party and our country as a whole. This important initiative would create jobs at a critical point in our economic recovery and reduce our country's energy footprint. Consumers would be able to afford to invest in products that would reduce their costs, increase their energy efficiency, and improve their quality of life at home or in the workplace. Domestic manufacturers of energy efficient products would realize increased demand and increased volume of sales, and others would have yet another incentive to enter the market of energy efficient products. In the words of the sponsor of this legislation, House Majority Whip Jim Clyburn, "[t]his bill provides for energy conservation, job creation and cost-effective upgrades that will improve consumers' quality of life. There is such broad support for this initiative because it is a win-win-win proposition." Similarly, the lead cosponsor, Congressman Ed Whitfield described the bill as "a win for American consumers and a win for improving energy efficiency across the country." We could not agree more, and we strongly urge Congress to move forward and establish the Rural Energy Savings Program.

As you know, under the proposed legislation, individual co-ops or state-based groups of co-ops will apply to the Rural Utilities Service (RUS) of the U.S. Department of Agriculture (USDA) to borrow money to fund local energy efficiency programs that meet RUS energy savings standards. Co-ops, in turn, will use the funding to make low-interest micro-loans available to residences or small business that choose to participate in the voluntary program and that have a demonstrated ability to repay the loans. Participating consumers repay the co-ops for the installation and material costs through a charge on their utility bills within a 5–10 year window. Energy savings from the upgrade should cover most, if not all, of the cost of the loan, and consumers should save hundreds of dollars annually once the loan is repaid.

The program builds on an existing and strong co-op infrastructure that has strong community ties, an established presence in the industry, and a demonstrated history of repayment of loans. The Rural Energy Savings Program presents little risk to taxpayers and the Federal Government because the reliable co-ops will assume the responsibility of collecting from consumers. Co-ops currently borrow extensively from the Federal Government to finance electric distribution, generation and transmission investments and have a proven repayment track record.

Rheem has significant and proud experience working with co-ops to offer energy efficient products to consumers. The company's nonmetallic Marathon water heater, in particular, is a popular product with co-ops. The product, manufactured in the company's Eagan, Minnesota facility, comes with a lifetime tank warranty, and it is offered in sizes ranging from 15 gallons to 105 gallons (see the picture below).

Currently the Rheem Marathon water heater is affiliated with nearly 300 rural electric cooperatives in various states. The programs differ by co-op, but the most typical business model is for the co-op to offer a significant rebate to the member, especially if the member is part of an off-peak load management program.

Marathon heaters have efficiency ratings ranging from 91 percent EF to 94 percent EF, with new, increased efficiency models planned for release over the next several months. The Marathon heater uses insulation to keep water hot, and the Marathon's blow-molded tank and tough outer jacket will not rust, leak or corrode. According to the Department of Energy, the average lifetime of a water heater is 13 years; however, in rural areas often with lower water quality than municipal areas, the tank may have to be replaced sooner due to corrosion. As a result, the Rheem Marathon water heater is a popular choice among consumers because of its nonmetallic tank, high efficiency levels, and the Lifetime Tank Warranty that saves consumers the future expense of buying and installing a replacement heater. Consequently, the Marathon heater can carry a higher cost, and regardless of eventual cost savings, Rheem has learned through experience that consumers often cannot afford the initial up-front cost of higher efficiency products. The availability of low-interest financing through co-ops will allow homeowners and small business to more readily afford cost-reducing and efficiency-increasing products such as the non-metallic Marathon water heater.

The Rural Energy Savings Program will give consumers the option of low-interest financing and the ability to decrease initial costs and realize the cost savings of higher efficiency energy products. Consumers should see long-term energy savings while avoiding the up-front capital and financing costs they would face in the private market, allowing consumers to invest in technology that should save American families hundreds of dollars each year in energy costs. The cost savings eventually realized on energy bills will allow low income households to allocate funds to food, shelter, education, and other necessities. Similarly, the program will also allow small businesses to focus their savings on other areas of need. Beyond utility cost savings, the American public will be working for more successful businesses and living in homes that are better insulated, more efficient, and more comfortable.

The impact of the Rural Energy Savings Program extends well beyond the players in the market for energy efficient products and helps advance national policies that will benefit the country as a whole. Improving energy efficiency will reduce our national carbon footprint and will help decrease our dependency on foreign energy sources. The program will create jobs at home at a critical time for our economic recovery and our efforts to lower unemployment rates. Specifically, the domestic

manufacturing and construction industries would benefit greatly as energy efficient products are domestically manufactured and, as you know, installation jobs cannot be outsourced. The fact that this bill would advance such important national policies while at the same time providing direct and immediate benefits to consumers and manufacturers explains why Majority Whip Clyburn, Congressman Whitfield, and others have worked so diligently to advance this legislation.

For nearly 200 years, the Committee on Agriculture has established agricultural policy for America and tackled vitally important energy issues including renewables, rural development, conservation, and related jobs efforts. The need to lower cost barriers for those in rural communities to energy efficient products is yet another key issue.

Under your leadership, Chairman Holden and Ranking Member Goodlatte, and Members of the Subcommittee, this body has the opportunity through the Rural Energy Savings Program Act to extend its long-standing efforts to create jobs, reduce consumer costs, spur domestic production, and reduce our energy footprint. Moreover, the program will achieve all these results by prudently using Federal resources to lower cost barriers and empower co-ops and consumers to help themselves and our country. Rheem strongly urges you to move quickly to pass the legislation establishing this program. I thank you for your time and for the opportunity to testify before you today, and I welcome any questions you may have at this time.

Thank you.

The CHAIRMAN. Thank you, Mr. Bates. Mr. Bony.

STATEMENT OF PAUL S. BONY, DIRECTOR OF RESIDENTIAL MARKET DEVELOPMENT, CLIMATEMASTER, OKLAHOMA CITY, OK

Mr. BONY. Good morning, Chairman Holden, Congressman Goodlatte and distinguished Members of Congress. It is truly an honor and a pleasure to be here this morning to offer support for the Rural Energy Savings Program Act on behalf of my employer, ClimateMaster, an Oklahoma based manufacturer of geothermal heat pumps with dealers and distributors across the U.S. I am Paul Bony, and I have 23 years of electric utility experience focused on energy efficiency, renewable energy, and demand side planning. I have worked for two electric co-ops, including one where my great uncle was the first elected board president, and I am a member of an electric co-op.

Based on my experience, this legislation will provide many benefits to the electric cooperative industry and the members they serve. This legislation will save energy. Buildings use nearly 40 percent of all U.S. primary energy and the thermal loads of heating, cooling, and water heating account for nearly ½ of this use. These thermal loads can account for as much as 70 percent of the total energy use of rural homes. Geothermal heat pumps can reduce this annual energy load by up to 50 percent.

This legislation will also save rural consumers money. Many rural areas do not have access to well capitalized and organized energy retrofit companies. Rural areas also rely on a high proportion of expensive fossil fuels for heating. Customers can benefit greatly from energy efficiency upgrades including geothermal heat pumps. These upgrades can provide energy savings that will exceed the loan repayments made under the proposed RES program. I conducted an extensive home energy retrofit project that confirmed members could easily reduce their annual energy use by 50 percent or more from efficiency measures that provided a positive cash flow after debt service.

Unfortunately, in today's tough economy, customers do not have ready access to affordable loan funds to implement efficiency measures. This legislation will be invaluable in breaking this financial

barrier. This legislation will also create jobs. The energy efficiency upgrades financed by this legislation will generate employment for local labor. For geothermal heat pumps the installation of the equipment and ground loop has to be done locally. We will never import ground loops from off shore. I started a co-op division that focused exclusively on the installation of 50 to 70 geothermal heat pump systems annually. This division employs seven full-time people in good paying jobs with full benefits. It also hires other contractors to provide services including energy audits, drilling ground loops and weatherizing homes.

This legislation will improve the financial stability of participating co-ops. Geothermal heat pumps offer cooperatives an excellent tool to obtain significant peak load reduction and improve system load factor. This allows a co-op to provide energy efficiency to their members and reduce the need for expensive new generation without putting pressure on electric rates. These energy savings also spin off significant carbon savings. Co-ops could bundle these savings and capture their value for the benefit of their members. Electric co-ops are a great vehicle to administer the RES program. They have a long track record of providing member-focused services and paying back their Federal loans. They are trusted by their members. They can collect payments on their utility bills.

In rural communities they are often the only organization with the resources and talent to administer this type of effort. I recognized over 15 years ago that access to affordable financing was the key to customer participation and energy efficiency, when I started the successful geothermal loop lease program that is still working today. In Colorado, I again proved that consumers will respond to co-op financing to make efficiency investments. While individual members in my loan portfolio experienced the misfortunes that can happen to any of us, it always generated a positive cash flow. I can also assure you that my general manager and our board of directors paid close attention to my monthly reports on this loan portfolio.

However, in both programs, our ability to fund member efficiency was limited to internally generated funds, as RUS was not able to finance these efforts. With support from then Senator Ken Salazar, we were able to obtain USDA loan funds for the co-op financed geo loops in the 2007 Food and Energy Security Act. However, this loan authority only addressed the geo loop, not the equipment installation and home shell improvements. This legislation will close this large financing gap, and in my humble opinion, greatly accelerate the implementation of energy efficiency in co-op country.

In conclusion, ClimateMaster is very supportive of and excited about this legislation. I am convinced that it will provide great benefits to the millions of members of electric co-ops. It closes the financing gap that has prevented the greater adoption of energy efficiency in rural America, and it levers the resources and talent embedded in America's electric cooperatives. Thank you for giving me this opportunity to share my comments with you this morning.

[The prepared statement of Mr. Bony follows:]

PREPARED STATEMENT OF PAUL S. BONY, DIRECTOR OF RESIDENTIAL MARKET DEVELOPMENT, CLIMATEMASTER, OKLAHOMA CITY, OK

Good morning, Chairman Holden, Congressman Goodlatte, and distinguished Members of Congress. It is truly an honor and pleasure to be here this morning to offer support for the Rural Energy Savings Program Act on behalf of my employer ClimateMaster, an Oklahoma based manufacturer of geothermal heat pumps with dealers and distributors across the U.S.

I am Paul Bony, and I have 23 years of electric utility experience focused on energy efficiency, renewable energy and demand side planning. I have worked for two electric cooperatives, including one where my Great Uncle was the first elected Board President, and I am a member of an electric co-op.

Based on my experience, this legislation will provide many benefits to the electric cooperative industry and the members they serve.

This legislation will save energy. Buildings use nearly 40% of all U.S. primary energy and the thermal loads of heating, cooling, and water heating accounting for nearly ½ of this use. These thermal loads can account for as much as 70% of the total energy use of rural homes. Geothermal heat pumps can reduce this annual energy load by up to 50%.

This legislation will also **save rural consumers money.** Many rural areas do not have access to well capitalized and organized energy retrofit companies. Rural areas also rely on a high proportion of expensive fossil fuels for heating. Customers can benefit greatly from energy efficiency upgrades including geothermal heat pumps. These upgrades can provide energy savings that will exceed the loan repayments made under the proposed RES program.

I conducted an extensive home energy retrofit project that confirmed members could easily reduce their annual energy use by 50% or more from efficiency measures that provided a positive cash flow after debt service.

Unfortunately, in today's tough economy, customers do not have ready access to affordable loan funds to implement efficiency measures. This legislation will be invaluable in breaking this financial barrier.

This legislation will also create jobs. The Energy Efficiency upgrades financed by this legislation will generate employment for local labor. For geothermal heat pumps, the installation of the equipment and ground loop has to be done locally. We will never import ground loops from off shore.

I started a co-op division that focused exclusively on the installation of 50 to 70 geothermal heat pump systems annually. This division employs seven full time people in good paying jobs with full benefits. It also hires other contractors to provide services including energy audits, drilling ground loops, and weatherizing homes.

This legislation will improve the financial stability of participating co-ops. Geothermal heat pumps offer cooperatives an excellent tool to obtain significant peak load reduction and improved system load factor. This allows a co-op to provide energy efficiency to their members and reduce the need for expensive new generation, without putting pressure on electric rates. These energy savings also spin off significant carbon savings. Co-ops could bundle these savings and capture their value for the benefit of their members.

Electric co-ops are a great vehicle to administer the RES program. They have a long track record of providing member focused services and paying back their Federal loans. They are trusted by their members. They can collect payments on their utility bills. In rural communities they are often the only organization with the resources and talent to administer this type of effort.

I recognized over 15 years ago that access to affordable financing was the key to customer participation in energy efficiency, when I started a successful geothermal loop lease program that is still working today.

In Colorado, I again proved that consumers will respond to co-op financing to make efficiency investments. While individual members in my loan portfolio experienced the misfortunes that can happen to any of us, it always generated a positive cash flow. I can also assure you that my General Manager and our board of directors paid close attention to my monthly reports on this loan portfolio.

However in both programs, our ability to fund member efficiency was limited to internally generated funds, as RUS was not able to finance these efforts. With support from then Senator Ken Salazar we were able to obtain USDA loan funds for co-op financed geo loops in the 2007 Food and Energy Security Act. However this loan authority only addressed the geo loop, not the equipment installation and home shell improvements.

This legislation will close this large financing gap and in my humble opinion greatly accelerate the implementation of energy efficiency in co-op country.

In conclusion, ClimateMaster is very supportive of and excited about this legislation. I am convinced that it will provide great benefits to the millions of members of electric cooperatives. It closes the financing gap that has prevented the greater adoption of energy efficiency in rural America and it levers the resources and talent embedded in America's electric cooperatives.

Thank you for giving me the opportunity to share my comments with you this morning.

The CHAIRMAN. Thank you. Mr. Cowan.

STATEMENT OF JONATHON COWAN, PRESIDENT, THIRD WAY, WASHINGTON, D.C.

Mr. COWAN. Good morning, Mr. Chairman, and thank you for inviting me to testify. My name is Jon Cowan, and I am President of Third Way. Previously, I was Chief of Staff of the Department of Housing and Urban Development. I appreciate your giving me the opportunity to talk today about a policy that, as all the witnesses have said, has bipartisan, bicameral support, creates thousands of jobs in rural America, and is an effective expenditure of our tax dollars. Mr. Chairman, energy efficiency improvements can save homeowners a lot of money and create good local jobs, but despite the promise of lower energy bills, most homeowners don't actually make these improvements. Why? Rural Energy Star changes that calculation and answers that question. It makes it convenient to pay for and contract improvements. It operates through long-established U.S. Department of Agriculture and co-op processes that we know work, and it achieves enormous benefits at limited cost.

It should be an easy decision for homeowners to invest in saving energy. Improvements pay for themselves within 5 to 10 years, and energy savings continue for the lifetime of the home. But few families, as this Committee knows, have $4,000 or $5,000 lying around, in a bank, under a mattress to pay for improvements. And if they do pay for them, they might have to move before the savings pay off and, as many know, making those efficiency upgrades can seem daunting and complex to the average homeowner. Rural Energy Star eliminates these barriers so that anyone can take advantage of the opportunity to save money through efficiency. Affordable loans to consumers cover the entire cost of improvements ensuring that people can participate as long as they pay their monthly utility bill.

Local electric cooperatives serve as general contractor and the source of the consumer loans creating a program that is convenient and trustworthy. Co-ops attach the loan repayment obligation to the meter ensuring that benefits and costs pass on if the homeowner actually moves. Rural Energy Star extends two 75 year old legacies, USDA's lending money to co-ops, and co-ops financing consumer loans and improvements. USDA has issued direct loans to electric cooperatives since the New Deal, with the Rural Utilities Service issuing over $6 billion in loans last year alone. And the repayment history of co-ops is second to none. Rural Energy Star takes advantage of the regulations and processes already in place at USDA, so that Federal loan-making is smooth and efficient.

Meanwhile, the co-ops are well situated to manage the loan making and contracting at the consumer level. Because they are nonprofit and ratepayer-owned, the co-ops have a unique incentive to help consumers save energy. Co-ops have the ability to finance

their consumers' efficiency improvements, the data to determine which ratepayers are good credit risks, and a reliable, property-tied repayment mechanism in the form of home utility bills. They also have the on-the-ground management structures and local relationships to ensure sub-contractor accountability and confirm that improvements are installed as promised. If cost savings do not materialize, the co-ops, not the Federal Government, are on the hook for the losses. That is a powerful incentive to make sure the program works.

If Congress passes the Rural Energy Star bill, it will achieve significant economic benefits also at an affordable cost. The $995 million this bill is projected to cost will leverage $4.9 billion in consumer loans enabling the weatherization and retrofitting of nearly 1.5 million rural homes. That means for every $1 spent by the Federal Government $5 is spent in rural communities on contractors and manufactured goods. The resulting energy savings will save rural homeowners a minimum of $5 billion on their utility bill in the first 10 years, and even more in the next 10. That extra money in people's pockets stimulates the economy. Economists project Rural Energy Star will create about 292,000 jobs by 2020. That means nearly 300,000 jobs and billions in dollars in savings on consumer energy bills.

Mr. Chairman, Rural Energy Star uses proven mechanisms to leverage Federal funding and to save homeowners money and create new local jobs. That is why it has already received strong bipartisan, bicameral support, and we believe it would be an effective program if passed into law. Thank you.

[The prepared statement of Mr. Cowan follows:]

PREPARED STATEMENT OF JONATHON COWAN, PRESIDENT, THIRD WAY, WASHINGTON, D.C.

Good morning, Mr. Chairman, and thank you for inviting me to testify this morning. My name is Jon Cowan, and I am President of Third Way. I previously was Chief of Staff of the Department of Housing and Urban Development. I appreciate your giving me the opportunity today to talk about a policy that has bipartisan, bicameral support, creates thousands of jobs in rural America, and is a responsible fiscal steward of Americans' tax dollars.

Mr. Chairman, energy efficiency improvements can save homeowners a lot of money and create good local jobs. Despite the promise of lower energy bills, however, most homeowners don't make these improvements.

With just the lightest touch from the Federal Government, Rural Energy Star changes the game for rural homeowners when it comes to saving energy. It makes it convenient and painless to pay for and contract improvements. It operates through long-established U.S. Department of Agriculture and co-op processes that we know work smoothly. And it is fiscally responsible, achieving enormous benefits at limited cost.

It should be an easy decision for middle class homeowners to invest in saving energy. Improvements pay for themselves within 5 to 10 years, and energy savings continue for the life of the home. But few families have $4,000–$5,000 lying around to pay for improvements, and they might move before the savings payoff anyway. Moreover, making substantial efficiency upgrades can be a complex and daunting endeavor.

Rural Energy Star eliminates these barriers so that anyone can take advantage of the opportunity to save money through efficiency. Affordable loans to consumers cover the entire cost of improvements, ensuring people can participate as long as they can pay their monthly utility bill. Local electric cooperatives serve as general contractor and the source of the consumer loans, creating a program for homeowners that is convenient and trustworthy. Co-ops attach the loan repayment obligation to the meter, ensuring that benefits *and* costs pass on if the original homeowner moves.

To take these steps to address consumers' needs, Rural Energy Star extends two 75 year old legacies—USDA's lending money to co-ops, and co-ops financing consumer loans and improvements. As Members of this Committee know well, USDA has issued direct loans to electric cooperatives since the New Deal, with the Rural Utilities Service issuing over $6 billion in loans last year alone. And the repayment history of co-ops is second to none. Rural Energy Star takes advantage of the regulations and processes already in place at USDA, so that Federal loan-making is smooth and efficient.

Meanwhile, the co-ops are well situated to manage the loan making and contracting at the consumer level. Because they are nonprofit and ratepayer-owned, the co-ops have a unique incentive to help their consumers save energy. Co-ops have the ability to finance their consumers' efficiency improvements, the data to determine which ratepayers are good credit risks, and a reliable, property-tied repayment mechanism in the form of home utility bills. They also have on-the-ground management structures and local relationships to ensure sub-contractor accountability and confirm that improvements are installed as promised. If cost savings did not materialize, the co-ops—not the Federal Government—are on the hook for the losses. That's a powerful incentive to make sure the program works.

If Congress passes the Rural Energy Star bill we are discussing today, it will be a fiscally responsible action, achieving enormous, enduring economic benefits at an affordable cost.

The $995 million this bill is projected to cost will leverage $4.9 billion in consumer loans, enabling the weatherization and retrofit of nearly 1.5 million rural homes. That means for every $1 spent by the Federal Government, $5 is spent in rural communities on contractors and manufactured goods. The resulting energy savings will save rural homeowners a minimum of $5 billion on their utility bills in the first 10 years and even more than that in the next 10 years. The extra money in people's pockets stimulates the economy even further. Economists project Rural Energy Star will create 292,000 jobs by 2020. That's nearly 300,000 jobs and billions upon billions of dollars in savings on consumer energy bills.

Mr. Chairman, Rural Energy Star uses proven mechanisms to leverage comparatively few Federal dollars to save homeowners money and create new local jobs. This is why it has already received strong bipartisan, bicameral support, and we believe it would be an effective program if passed into law.

Thank you.

The CHAIRMAN. Thank you. Mr. English, do you think H.R. 4785 includes adequate safeguards to ensure the integrity of the program remains intact, and NRECA does not find itself in a situation where some customers cannot pay back the loan?

Mr. ENGLISH. Well, I think that it best can be pointed out by the fact that as is always any time an electric cooperative borrows from the Rural Utilities Service it is the electric cooperative who is responsible for those funds. In this particular case, it is the electric cooperative making that investment in efficiency locally, and obviously they know their membership better than anyone, and they know where they can acquire those savings. And as I pointed out, we feel that this legislation provides the flexibility, the accountability that is necessary for the electric cooperative to do that job and do it well. I might also point out very quickly, Mr. Chairman, there is one very important distinction here. To my knowledge, this is the only case in which you have a segment of electric utility industry who is stepping up and assuming the responsibility to make sure that we have a very aggressive efficiency program taking place and has a delivery mechanism to make it happen. I know of no other segment of the electric utility industry that has expressed such interest or is involved to that extent.

The CHAIRMAN. Following up on Mr. Kissell's question previously, how do you think the projects will be prioritized, the most savings, or the lowest income homeowner, or how do you think it will be implemented?

Mr. ENGLISH. Well, I can only hope that we have enough interest and demand for electric co-op members that we will have that difficulty in making that kind of selection. Obviously, from the standpoint of the cooperative, and this is where I wanted to underscore that this business is owned by the consumers, affordable electric power is a big issue, and back in 1980 it was the local co-op board and the management that was catching an awful lot of anger from the membership as those electric bills took those kinds of increases. That was the last transition we went through. As I said, we are going through another one now, and so it is certainly in the co-op's management and board's best interest to make sure that they get as much efficiency as they possibly can so that they can avoid taking what is the most expensive option; that is going out and building a new power plant, and certainly doing it at a time when there is uncertainty as to what the rules and regulations are going to be for the future.

So it is in everyone's best interest, both from a consumer's best interest, as well as from the co-op, the co-op management, the co-op board's best interest to make sure that we have this option and we take advantage to make sure where we can get the greatest gain. I think that is probably what is going to drive it as much as anything.

The CHAIRMAN. Thank you. I now recognize the Ranking Member, Mr. Goodlatte.

Mr. GOODLATTE. Thank you, Mr. Chairman. This program proposes a nearly $1 billion authorization. If the bill were to become law, it would require funding to be implemented. Given our current budgetary situation Congress will need to look for offsets to pay for this program. I don't believe that the current rules of the House now that the big horse, health care reform, is out of the barn, everything else now requires PAYGO provisions. Are any of you willing to offer suggestions where to find the funding for this program, or able to prioritize current programs that incentivize energy efficiency projects? There are a number of folks, including Congressman Clyburn, who cited this as a win-win-win proposition. I wonder if any of you can identify who the loser will be in terms of where a cut can be made to find the billion dollars.

Mr. ENGLISH. If I could, Mr. Goodlatte. I will take a crack at that. As you know, basically the loan itself is going to be repaid, so unlike the other programs that you are dealing with as far as the government's approach on efficiency, this is a loan program. The only thing that you are really subsidizing here is the interest rate, and you are providing some startup funds. There is no question about that. Now I would suggest to you that maybe you ought to look it the other way and look at what is going to happen if you don't pass it because your constituents, our membership, is going to lose. That is where the big costs are going to be.

We have an opportunity here to be able to save our members, your constituents, some money by a very small investment on the part of the Federal Government in taking on 42 million consumers in 47 states across this country. Now this is probably one of the most efficient investments that this government has made any time since the creation of the REA back in 1935. It is a heck of a good partnership that we have had running for the past 75 years, name-

ly, the government being the lending officer and the cooperatives and consumers and your constituents being the people who are enacting this program, and this is in the best tradition of that. I understand the difficulties and challenges that you have, but those are the kinds of choices Members of Congress are going to have to make as far as priorities.

Mr. GOODLATTE. Well, let me just point out that while I love your answer, it isn't an answer to my question. There is no doubt that this will be good for approximately two percent of those 42 million members because this program, as it is currently proposed, would be able to fund maybe as many as a million people to get this kind of energy efficiency put into their homes, and there is absolutely no doubt that doing that is a very good thing. But the fact of the matter is we don't have in this Congress, and never have while I have been here, what is called dynamic scoring. What you just cited is dynamic scoring when you say, well, gee, you can't go wrong here so we should just put the money up. We are going to have to find an offset, and I wonder if anybody else on the panel has a suggestion for what the offset would be.

Mr. BONY. At the risk of getting in trouble when I get home, I will take a short stab at that. The energy use has two components, a supply side and a demand side. This bill addresses the demand side and the efficiency side. My hunch is, and I am not an expert on the Federal budget, you have funds that are being spent to promote the demand side, the generation of the fuels. Perhaps that would be a good place to look for the offset for the efficiency side to balance that playing field.

Mr. GOODLATTE. You are suggesting that we could do less to promote the production of new sources of energy to pay for this? I think that would run counter to what the direction of the Congress has been. We want to encourage energy efficiency, but we certainly recognize that the ability, including the ability of rural electric cooperatives to meet future demand, is going to require not only the savings that will be achieved from allowing a million of those 42 million to be able to get energy savings, but it is also going to assume that the other 41 million are going to need increased energy consumption over the time that this program will be in effect. That doesn't even take into account the employers and jobs and everything else that are dependent upon having access to, not just the availability of energy sources, but also the affordability of that energy.

Mr. BONY. I appreciate the dilemma that looking for a balanced budget promotes, but I would say that there is money that is spent to promote the supply side of energy, and if we leveled the playing field for the demand side and the efficiency side, that might be a good place to go look.

Mr. GOODLATTE. Well, no doubt, and, in fact, someone pointed out that the legislation that passed the Congress last year, the so-called stimulus, did have a substantial amount of money in it for weatherization programs. Let me ask one more question since my time has expired or is about to expire. How much would an energy efficiency and verification audit cost an average homeowner, and is it plausible for the cost of the audit to be included in the customer's loan?

Mr. BONY. Again, I will step on the limb here. I could do an audit for about $250 of employee time. There are other numbers that say as much as $500 if you use a third party contractor. I would assume that that cost could be included in the loan and probably should be as part of the administrative cost for the homeowner.

Mr. GOODLATTE. That is five to ten percent of the savings. Glenn.

Mr. ENGLISH. I think we also have to recognize and understand that the cooperative that engages in this program is going to be undertaking these kinds of costs. How that is dealt with, it is part of the expense that will be borne by the homeowner themselves as they repay the loan. I believe it allows in the legislation, if I remember correctly, up to three percent to cover those kinds of expenses. So I believe that that is already anticipated and would be addressed under those circumstances. You will have, obviously, some people who do an audit who for one reason or another may find that there are no savings or the savings are not sufficient to be paid back during the 10 years. And we are going to have facilities where, quite frankly, it doesn't make sense to go in and do any kind of efficiency improvements. The cost of those audits are going to have to be borne by the program that the cooperative is operating.

Mr. GOODLATTE. The cooperative will have to take the risk if they do an audit, and it doesn't show savings for that homeowner who may be below the poverty line status that the cooperative would have to eat those costs.

Mr. ENGLISH. Exactly. And we expect that particularly low income, there will be a number of facilities out there—I know where this program was really born, in South Carolina. Mike Couick, who is here today, has told me many times that they have a number of trailers, for instance, there is just no way you are going to make them energy efficient. It is a waste of money to try to invest in that, and that is a decision the co-op is going to have to make, but we will have to, in effect, eat that cost.

Mr. GOODLATTE. Got you. Well, Mr. Chairman, I want to thank all the members of this panel. They have been not only dynamic but also creative, and I thank them for their testimony.

The CHAIRMAN. The chair thanks the Ranking Member. The gentleman from North Carolina, Mr. Kissell.

Mr. KISSELL. Thank you, Mr. Chairman. I also want to thank the panel for being here, and I want to frame a couple of questions about, first, telling you a little bit of a personal story, then I will have a couple questions that come off this. The home that I live in, we built and moved in in 1985. We had a wood water stove and to the point of coming up here, I never had a hot water heater. All our hot water came off that wood stove. All our heat came off that wood stove in terms of heating the water and then like a car heater convert it through a coil and blew the hot air into the house, and so forth and so on. Of course, there had to be a lot of wood cut for that to happen, and that was my job. And when I was elected to come up here, I could not convince my wife and two daughters that they would enjoy using a chainsaw a lot during the winter, and the rest of the year too, to have that luxury of heat and hot water. They were not willing to do without heat and hot water so we had to put in a hot water heater for the first time.

And we put in a complete new—we did enjoy air conditioning so we put in a new heat pump system that would provide the heat as well as the air conditioning. My energy bill, I have averaged out, and I pay the same thing every month, so it came time for the renewal of that bill this year, and I said, okay, I have additional electrical use so that bill is going to go up. And while I still use the wood stove and get some hot water to the hot water heater, and so forth and so on, my electrical use went up. And I was very surprised when my electrical bill averaged out over the last year, my first year up here, went down $50 a month.

So it does show that the increased efficiency can cut the use. I was very pleased with that. My question is I paid several thousand dollars, and, Mr. English, as you said, even though I am saving money, I would not have paid that unless I had to. Once again, my wife and daughters could not be convinced that chainsaws work very easily. I think your point that we would not do this unless it was included in the electrical bills and savings, so forth, so on, people would not put that money up front even though it will save money. So my open question to anybody who wants to come forth on this one is how much do you think in terms of the changes that we want to see the homeowners make, how much would that average cost be per house in terms, $3,000, $4,000, $5,000? How easily can we convince people, and, Mr. English, this would probably come more to you, how easily can we convince people that this is a good thing? It will save money and there is no up front cost there. But how much do we think per house we would—cost would be per house to refit it and the systems and things we need, and how easily would people respond to this?

Mr. ENGLISH. I think we have to anticipate we are probably talking in the neighborhood $4,000 to $7,000, somewhere in that neighborhood on an average if that is what you are doing, and that is a very rough average, I understand. There is a second point though I think that is being missed here. It is not just the money, the loan. You also have this problem of what do I do? If you are a homeowner, I don't have any expertise who the right contractor here, and we have all heard horror stories about contractors coming in and ripping people off. Nothing against contractors, you understand. I don't want to get the contractor folks upset with me. But the second point is also what kind of products do you include, what kind of technology, and you have all kinds of salesmen out there selling different things, making different promises.

You know, what kind of real savings are we going to have. I think another part of this, and this goes back to the McKinsey study that came out last year, in which they were making this very point that one of the things that holds people back from really getting involved in efficiency has to do with the fact, golly, gee, I don't know what to do. I don't know what products to select. I don't know what contractor to get. I don't know whether it is worth it. I don't know whether the promises being made are legit. And so really what you are talking about here, and this is something I think that has been underestimated with programs that we have done in the past, is the fact that you have no interface with somebody coming in there with a how to.

Well, the electric co-op, good, bad or indifferent, is going to be on the hook. Good, bad or indifferent, the electric co-op is going to be having that interface with their membership. Good, bad or indifferent, those members are going to be looking to the co-op as to: you recommended the contractor, you came in and you checked the work that the contractor did and it was your evaluation that made this decision. All that stuff goes a long way, and McKinsey backs this up, goes a long way down the road to really getting a full-fledged efficiency program underway in this country. And, as I said, it is all because in this case you have 12 percent of the population that is represented by electric co-ops that are consumer owned, the consumers themselves own it, stepping forward and saying, okay, we are going to look after our members. We are asking again for that partnership that we have had for the last 75 years between government and those consumers.

Mr. KISSELL. I know my time is running out. Time is running out. Thank you so much.

The CHAIRMAN. The chair thanks the gentleman. The gentleman from Tennessee, Mr. Roe.

Mr. ROE. Thank you, Mr. Chairman, and thank you for allowing me to be here today. Just a couple of things. One, I have an A.O. Smith water heater. Two, I have a Rheem heat pump. And, three, we built two new schools in Washington County, Tennessee and used underground geothermal to do that, so I have used all those things from a personal standpoint. A.O. Smith Water Heater Company employs 1,200 people in my hometown. They produce a water heater every 17 or 19 seconds, 9,000 of them per day, good, American manufacturing jobs. And I want to ask one question of Mr. Adams, a couple of questions. We talked in our office yesterday about incentives that would incentivize a foreign country who makes the same efficiency or less efficient water heater, why would we offer tax incentives to a foreign country when Rheem and A.O. Smith, and we produce these great products right here. Mr. Adams, would you take a shot at that and anyone else on the panel that would like to?

Mr. ADAMS. Yes, sir, I will be happy to try. As a U.S. manufacturer of energy efficient appliances, we obviously think that good public policy should incentivize both energy efficiency and U.S. jobs. The situation with particularly a section 25C tax credit that was first established in 2005 or 2006 was based on the energy efficiency rating of water heaters, and that is a pretty confused world to be blunt. Low energy input water heaters are regulated under the National Appliance Energy Conservation Act. Higher energy input water heaters are regulated under the EPAct, Energy Policy Act.

There are two different energy descriptors, two different methods of tests, two different ways of rating. The miles per gallon rating is completely different, if you will, on low input and high input water heaters. The confusion of having multiple energy descriptors has created a situation, particularly, starting with the section 25C tax credit that has been promulgated through further legislation that has given—I will refer to it as a biased advantage to certain types of water heaters. As it happens some of those water heaters that are really less efficient than other are foreign manufactured.

So there are domestic manufactured heaters that were not eligible, the most efficient heaters on the market made by all of our companies, that were not eligible for the original section 25C tax credit.

Now that has been fixed along the way in Energy Independence Security Act and reinforced in the stimulus bill, but there are still some classes of products that are falling outside of the scope of these incentive programs just because of the way they are rated.

Mr. ROE. Well, does this legislation address that because I think this is a great opportunity to address that inequity?

Mr. ADAMS. It provides, in my opinion, it provides an indirect means to address it because it leaves the list of qualified energy improvements up to the co-op to develop. And, as I mentioned briefly in my testimony and further in my written testimony that has been submitted, we need to make sure that some mechanism, we provide guidance to the co-ops on the types of equipment that is included in the list of approved things to do, if you will.

Mr. ROE. Anyone else have a comment?

Mr. BATES. In terms of our perspective on this, we have been dealing with over 300 cooperatives across the country, and Rheem is a global manufacturer of products. Most of the products we supply to cooperatives are made in the United States, but because we have a global footprint not all the products we make are supplied from the U.S. manufacturer on all occasions. Then again we also export products for many of our facilities to other countries around the world. So, as we deal with cooperatives we just want to make sure that they are aware of what their members need, and we wouldn't want to preclude any specific additional product line from being offered to their members to give them savings.

Mr. ROE. I guess the question I would have would be if it is less efficient, why be giving American tax incentives to have—I realize you export, and that is, obviously, an issue that could be used against you; I think we need to look at that is all I am saying. One last question very quickly, Mr. Chairman. There are numerous programs with ARRA and with the 25C tax credit and the Home Star and all of that, do these work symbolically or are they redundant? And any of you can take a crack at that. Mr. English

Mr. ENGLISH. I will take a crack at it. I don't think that they are redundant. I think they can work together and compliment each other. They should. What is unique about this particular program is the fact that we are the only part of the electric utility industry that is going to directly get engaged, and this is responding to that and responding to the fact that this is a cooperative program. Second, it is a lending program. It is not a grant. And so that makes it different. And certainly it is tailored to make certain that the electric cooperative can assume that responsibility and can carry that program out with the local membership recognizing the variety of different situations we have throughout this country.

Mr. ROE. Mr. Chairman, thank you for allowing me to be here today.

The CHAIRMAN. The chair thanks the gentleman, and recognizes the gentleman from Alabama, Mr. Bright.

Mr. BRIGHT. Mr. Chairman, thank you very much for holding this important hearing on a key proposal to help create jobs and increase energy efficiency in rural areas, all while lowering our

constituents' utility bills. I want to thank each one of the gentlemen here today for your excellent testimony. Mr. English, you are very motivational and inspirational when it comes to finding and funding programs like this. We need you in a lot of other hearings and give us testimony like you did today, so thank you very much for that. One company that I really want to acknowledge here today, and if my colleague from North Carolina was still here, would probably verify that his energy efficient and energy saving water heater most likely came from Rheem Manufacturing. And we have a representative, Mr. Bates, from Rheem Manufacturing here today, and I want to commend you for being here and thank you for your testimony here today, and acknowledge Rheem Manufacturing in my district who employs over 1,200 employees in my district. I want to thank you for their dedication and their good jobs there in Montgomery, Alabama.

The company, as I said, has over 1,200 workers making excellent products in Montgomery, Alabama. Their General Counsel, Mr. Bates, is here today to give us the testimony that we have heard already. Mr. Bates, I do have a couple of questions, and one being specifically how much has the downturn in the economy affected your products and if it has at all?

Mr. BATES. Thank you, Congressman, and Rheem has been delighted to be in manufacturing in Montgomery for over 30 years now. It is the center of our headquarters for our water heating business which employs significant people in terms of manufacturing, but also research and development, and excellence senior level managerial jobs where they deal with various countries around the world. We have been delighted to be there and appreciate your support. In terms of the downturn, in the water heating business approximately 85 percent of water heaters sold in the United States are sold into the replacement market, so that has been much more stable. But, Rheem is also and has been a long time player in the air conditioning and furnace market with our headquarters for that business being in Fort Smith, Arkansas.

That market, because of the housing downturn, dropped approximately 50 percent for all players in the air conditioning and furnace market in the United States and has been a significant challenge. So, the emerging, still emerging recovery, but also the Home Star Program and this program that encourage the use of air conditioner, furnace, and heat pump products in that marketplace are critically important to that industry as we struggle with over capacity and challenges in maintaining manufacturing jobs in this country.

Mr. BRIGHT. Thank you very much. Let me tell you, I know it is difficult to speculate on this particular issue, but can you give the Subcommittee a sense of how long you think it will take after energy efficient measures have been installed on a home for a customer to see a change in their energy bills? I know that is purely speculation, but do you have, I call it an expert's opinion on how quickly a person or a family would be able to reap those savings? Would it be weeks, days or months of years?

Mr. BATES. Well, it happens on their first bill. The great program that the cooperatives have is the ability to have it financed with a limited charge to the homeowner on their electric bill. The home-

owner in many cases is not out of pocket the initial cost of the improvement, which allows low income consumers to hopefully achieve more in energy savings than the financing cost to the equipment. That is a terrific win-win proposition, and so that is why we are delighted to support this bill and believe it can really help people with significant income challenges achieve real savings and put their money to better use in terms of other expenditures.

Mr. BRIGHT. Thank you very much. My time is running out, but I do want to say for the record that I really do support this bill. I am a cosponsor on the bill with Mr. Clyburn and others, and really thank you for your testimony, each one of you, because it has been enlightening. Sometimes it is necessary to hear from the people who are directly affected out there, and you have done an excellent job today with your testimony. Mr. Chairman, I yield back my time.

The CHAIRMAN. The chair thanks the gentleman and recognizes the gentleman from Ohio, Mr. Boccieri.

Mr. BOCCIERI. Thank you, Mr. Chairman, and thank you to the panel for being here today. I wanted to address the question—none of you are budget experts and neither am I, but I appreciate the Ranking Member's new found fiscal responsibility in trying to find offsets for an investment into rural America. How about we start with the $100 billion that we are spending every year to rebuild Iraq and Afghanistan? How about a billion dollars to invest in rural America or weapons procurement and things of such that can be used. This is about jobs, about jobs in our local communities and investment in rural communities. As a state legislator, I have seen roving blackouts in rural communities that have been underserved and under represented as far as I am concerned with respect to that, supermarkets that couldn't keep their freezers on to keep food and supplies intact. And so I would just suggest that this is a matter of investing in America and something that we can't miss as an opportunity.

Mr. Cowan, in your words in your testimony you said this $995 million bill is projected to cost—will leverage about $4.9 billion in consumer loans. I know that there was discussion from the Ranking Member about the health care bill that just passed. We are spending a billion dollars to make sure every man, woman, and child in Iraq has universal health care coverage, but we can't invest a billion dollars in rural America so that we can get this kind of return on investment for every $1 spent by the Federal Government. We can leverage in our rural communities. I think it is something that we can't miss this historic opportunity to invest in our communities.

I had a question for you, Mr. Cowan. On the metering program where we are going to attach the cost benefit of this and allow it to be carried from homeowner to homeowner with respect to that. Can you explain how that metering process is going to work and how we are going to continue to have a homeowner, even if they sell the house, be responsible for the improvements?

Mr. COWAN. I am familiar with this also from my years at the Department of Housing and Urban Development, when you sell the home if you sell the home you have, in essence, a debt that you owe to the rural cooperative. You either pay that back when you sell

the home from the proceeds of the home, or you don't pay it back and the new homeowner carries it on and they are carrying the obligation to pay that through on their ongoing bill. That will be what occurs on many pieces of selling and buying a home, that is a piece of the transaction, and so you are either going to obligate it to pay the whole thing back out of the proceeds of the sale of the home, or the new buyer actually carries that on as part of the purchase of the home and they then carry the obligation to pay it back in the utility bill.

In the same way that a mortgage operates in which you do something that has great social good and individual good, but you spread it out over a long period of time, it is exactly the same here. So, even though the house might cost $150,000 or $250,000, here the expenses say $5,000, that is still a lot more than any one person can pay if you are in a low income bracket at one moment, so you are spreading that out over a much longer period of time.

Mr. BOCCIERI. Is that done with other utilities like sewer and water lines in some rural communities around the country?

Mr. COWAN. That I don't know. Do you mean are there improvements where you make an improvement and you have an up-front payment, and then it is spread out over time?

Mr. BOCCIERI. Sure.

Mr. COWAN. That I don't know.

Mr. BOCCIERI. One question for Mr. English, the Honorable Mr. English. I thank you for your testimony. You said cooperative revenue per mile averages only $10,565 while it is more than six times higher for investor-owned utility, that is $62,000, and for municipal utilities at $86,000. How has the impact of Federal power marketing authorities affected the investments? There are some like WAPAs and down south they have the Federal power marketing authorities. Can you explain to me how that cost has been spread out or has been borne across the Federal power authority?

Mr. ENGLISH. Well so much of what electric WAPAs have is the infrastructure. As I pointed out, the distribution infrastructure, we have 42 percent of that distribution infrastructure nationwide, all those wires and poles. And we only have 12 percent of the population that is paying for it, so basically the revenue that you have coming in obviously is more of a challenge for us than it is for, either investor-owned utilities where you have much denser population, or municipals. The Power Marketing Administration has been a tremendous help.

This is another one of those cases in which electric cooperatives and municipals partnered with the Federal Government early on when they were building dams in this country. We agreed through contracts, long-term contracts, to buy that power at above market rates. Well, we still have the rates. Only this time the power cost is much lower than what the prevailing market rate is, so it all evens out and certainly it has been a tremendous benefit to us. We are, obviously, very strong supporters of PMAs.

Mr. BOCCIERI. I am pleased to hear that because in the energy bill or the cap-and-trade bill that passed out of this chamber included a Federal power marketing authority for what is arguably the largest manufacturing sector for the United States. New York, Pennsylvania, Michigan, Ohio, Indiana, Illinois, these are areas

that are not served by Federal power marketing authorities. And while Ohio enjoys about $8.92 per kilowatt hour, which is low for the states that don't have a Federal power marketing authority, there is a Government Accountability Office study that shows we can reduce our rates by 24 percent more if we add this Federal power marketing authority, so this is absolutely essential to an energy bill, and absolutely essential for investment in my opinion. I want to thank you for your testimony and I just want to concur with you that the cheapest energy is the energy we never use.

Mr. ENGLISH. Exactly.

Mr. BOCCIERI. Thank you.

The CHAIRMAN. The chair thanks the gentleman and thanks our witnesses for their testimony and interaction on this legislation today. Under the rules of the Committee, the record of today's hearing will remain open for 10 calendar days to receive additional material and supplementary written response from the witnesses to any question posed by a Member. This hearing of the Subcommittee on Conservation, Credit, Energy, and Research is adjourned.

[Whereupon, at 12:25 p.m., the Subcommittee was adjourned.]

[Material submitted for inclusion in the record follows:]

SUBMITTED LETTER BY HON. JOHN M. SPRATT, JR., A REPRESENTATIVE IN CONGRESS FROM SOUTH CAROLINA

May 12, 2010

Hon. TIM HOLDEN,
Chairman,
Subcommittee on Conservation, Credit, Energy, and Research,
House Committee on Agriculture,
Washington, D.C.

Re: Hearing on H.R. 4785, "The Rural Energy Savings Program"

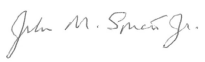
Dear Mr. Chairman:

I will be taking part in another hearing when your hearing on the captioned bill is held. I am attaching my written testimony in wholehearted support of this bill, and would respectfully request that it be made part of your record.

I am also attaching additional information on how this bill would work, and if no one else offers this material, I would ask that it also be made part of your record.

Thank you for considering our bill and for allowing me to make these submissions for the record.

Respectfully,



Hon. JOHN M. SPRATT, JR.

ATTACHMENT 1

Submitted Statement by Hon. John M. Spratt, Jr., a Representative in Congress from South Carolina

Chairman Holden, Ranking Member Goodlatte, Members of the Subcommittee, thank you for allowing me to submit testimony in support of H.R. 4785, "The Rural Energy Savings Program Act."

This bill will authorize the Rural Utilities Service (RUS) to make loans to rural electric cooperatives so that the co-ops, in turn, can make loans to families and small businesses for energy conservation and efficiency measures that meet RUS energy standards. The process will begin with an energy audit, aimed at identifying energy-saving measures. Based on this audit, the co-ops will propose improvements such as insulation and high-efficiency heat pumps. Participating consumers will repay the co-ops for the installation through a charge on their utility bills spread over a 5 to 10 year period. The energy savings will cover much, if not all, of the loan repayment; and after the loan is repaid, the participating consumer will continue to save, as will the economy due to more efficient use of energy.

The unemployment rate in South Carolina has hovered around 12 percent since onset of the recession, and in most of the 14 counties that I represent, unemployment has risen well into the double digits. More than 200,000 rural electric cooperative customer-owners reside in my Congressional district, many of them near or below the poverty level. Many pay high electricity bills because they live in old houses or mobile homes, which are energy-inefficient. In some cases, their energy bills are almost as expensive their mortgage payments.

As I travel my district, I meet people living on fixed incomes who have to make the choice between paying their electric bills and putting food on the table or buying medicine they need to stay healthy. Many of these hard-working people would gladly invest in their homes to make them more efficient; however, they cannot borrow or afford the capital necessary to install a new heat pump or place new insulation in their walls and ceiling.

This is where the ingenuity of the South Carolina Rural Electric Cooperatives comes in. Through a program that could be implemented nationwide, they would provide a simple yet effective solution to help their customers at relatively little expense. At the same time, they would create new jobs by making low-cost loans available to install high-impact energy efficiency improvements. The loans would be repaid over time on the customer's utility bill, and ideally there would be a net reduction in utility payments, even when accounting for the loan repayments.

Over many years of service, the rural electric cooperatives have developed the knowledge, training, and infrastructure to implement this program effectively. In South Carolina alone, the cooperatives have estimated this legislation would create 2,539 new jobs in the first year, 4,618 by 2020, and 7,113 by 2030. These jobs include both direct jobs, such as contractors performing energy audits and skilled

labor for retrofitting homes, along with indirect jobs generated by the manufacture of materials and associated services.

One of the most important pieces to this program is supplying skilled workers able to begin auditing and updating homes almost immediately. This is where community colleges and technical schools come in, many of which are already training workers for green technologies. They have the capacity and capability to educate and certify workers who carry out the RESP.

Mr. Chairman, the Rural Energy Savings Program is an opportunity to better the lives of rural, low to moderate income people across the country. RESP can raise their quality of life, create good-paying jobs, and help home-owners invest in and add value to their homes and the local economy.

Thank you for considering our bill, "The Rural Energy Savings Program Act." Congressman Clyburn and I know that it will work in South Carolina, and we fully believe that it is feasible throughout this country. We hope that your Committee will join us in supporting this bill and will expedite its passage by reporting it to the floor as soon as you can.

ATTACHMENT 2

Rural Energy Savings Program

Frequent 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 U.S. 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. 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, 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 10 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. 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 such as New Hampshire, Michigan and Virginia 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.

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 up-front 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 to be available until expended, over a 10 year period, with no more than 20 percent of a co-op's loan issued in any one year. Co-ops across the country will be able to participate in this program. Some cooperatives will be able to ramp up quickly, while co-ops that need more time to implement the program will still be able to participate. 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 ten 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 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 up-front 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 up-front 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 up-front 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.

How would this program be different from the DOE Weatherization Assistance Program? Wouldn't this program/funding duplicate efforts already underway? The program has two main advantages over the ARRA Weatherization assistance program. First, this program takes advantage of cooperatives superior community relationships, experience with on-bill financing, management and verification capacity. While the ARRA program has been challenged in its implementation, co-ops are extremely well positioned to deploy money quickly and efficiently while guarding against waste, fraud and abuse. Moreover, because these are loans rather than grants, this program will leverage Federal dollars more effectively than the ARRA program.

This program is targeted at rural consumers, which historically have been underserved by energy efficiency programs, including the DOE ARRA program and the PACE municipal financing programs.

ATTACHMENT 3

How will the Rural Energy Savings Program work?

Individual co-ops or state-based groups of co-ops will apply to the Rural Utilities Service (RUS) of the U.S. Department of Agriculture, to borrow money to fund local energy efficiency programs. The applicant must specify the measures that it intends to implement and the expected savings for consideration by RUS. When the loan is approved, the co-ops, in turn, provide the money in low-interest micro-loans to consumer residences or businesses. Consumers will benefit from the energy savings that have a 10 year or less payback period and their savings will be used to repay the loans.

Trained auditors and 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, 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 an extra charge on their utility bills within not more than a 10 year window. The energy savings from the upgrade will cover most, if not all, of the cost of the loan. Consumers will save more on their energy bills after the loan is repaid, saving most families hundreds of dollars annually. Every dollar loaned by RUS to the co-ops is repaid within 10 years after the cooperative re-lends the funds to the consumer.

A "jumpstart" grant of no more than four percent of the loan amount is provided to RUS borrower so that there are funds to begin the process, *i.e.,* to provide service to the first consumers. From there, the RUS will use its existing procedures to approve loans and to advance funds. In accordance with current practice in RUS Electric programs, no loan funds will be advanced on approved loans until the utility borrower submits documentation of work completed for the approved purposes of this program.

RUS loans to the co-op will bear an interest rate of zero percent. The co-op can charge an interest rate no higher than 3% to consumers with the difference used to establish a loan loss reserve and to partially defray administrative costs.

A training program will be established, funded by a $2 million grant, to provide utility auditors with information about how to implement the measurement and verification of savings, how to establish contractual relations with efficiency upgrade contractors and how to assist consumers in whose homes and businesses upgrades are being made.

A grant will fund a program-wide measurement and verification system to track quality control and savings for the 10 year loan period.

SUBMITTED STATEMENT BY NATIONAL ASSOCIATION OF REALTORS®

Introduction

The National Association of REALTORS® appreciates the opportunity to submit a written statement on H.R. 4785, the Rural Energy Savings Program Act. Also known as "Rural Star," the bill would propose to create jobs by establishing a loan program for energy-efficient building retrofits in rural America.

The National Association of REALTORS® (NAR) is America's largest trade association, representing more than 1.1 million members involved in all aspects of residential and commercial real estate sectors. NAR is the leading advocate for homeownership, affordable housing and private property rights.

NAR Perspectives on the Proposed Rural Star Legislation

NAR strongly supports providing property owners with the resources they need to voluntarily improve their homes and applauds the Subcommittee for holding this hearing. The Rural Star bill would propose to do this by establishing a loan program for energy efficiency improvements which would add value to property and reduce energy costs while also stimulating a job market in remodeling and renovation. We thank Representative Jim Clyburn for his efforts on the "Rural Star" legislation, which is the subject of today's hearing.

While we support the bill's goal to make rural homes more energy efficient, NAR has concerns with the broad energy-audit and worker-training provisions in the bill. Implementation of these provisions is left to the USDA, which is then given even broader regulatory authority to carry out Rural Star while waiving the administra-

tive procedures that protect consumers from unnecessary regulations and paperwork.

If USDA were to establish energy-audit or labeling requirements that compare one property with another, NAR believes that owners of older properties would not be able to take advantage of the loan program, defeating the purpose of the legislation. Without the administrative rulemaking/paperwork procedures, property owners would be denied the opportunity to review or comment on the rulemaking in order to minimize its impacts. We look forward to working with the Subcommittee to help minimize regulatory/paperwork burden and maximize use of this important loan program.

Home Energy Auditing and Labeling

The Rural Star bill would require an energy audit to obtain a loan and direct USDA to contract with non-governmental organizations to develop a measurement and verification protocol. While we recognize the need to verify energy savings in a property before and after retrofitting, we are concerned that, if the choice where made to measure and label one home in comparison with another, such an implementation scheme would create "winners" and "losers". Such a decision would ultimately discourage use of the loan program, especially for older homes which are most difficult to bring up to the standards that can be achieved *vis-à-vis* a newer home.

Energy labels stigmatize older properties and make it harder for the owners to build savings or equity. Labels also will reduce property values when existing owners sell and are forced to negotiate price reductions in order to compete in today's buyer's market.

According to data collected by the American Housing Survey (AHS) and analyzed by NAR, labeling real estate will create disproportional impacts on older property owners. More than 60% of U.S. homes were built prior to 1980 when the first building energy codes were established, and face relatively larger losses in property value due to building labels. These properties will require more improvements than the newer properties in order to match labeling scores and maintain their value.

According to the AHS data, a large share of these older properties are owned and occupied by older or disadvantaged populations. These populations include 73% of elderly, 69% of impoverished and 64% of Hispanic and black owners. Labels will not only stigmatize these families' older homes but the community where they are located and which are struggling to maintain and attract investment. There would also be regional disparities: rural communities could be especially stigmatized, as a substantial proportion of homes in those areas were built prior to 1980.

In addition, there is no reliable or meaningful metric that accurately captures the diversity of energy use across all properties. An unreliable rating system will not lead to home energy use reductions. And, while this is not the approach taken by the Rural Star program, NAR's members do have significant concerns should a labeling requirement be imposed on properties at time of sale. When buyers hold all the cards at the closing table, any use of transaction-based triggers only serve to send conflicting market signals—without any assurances that needed energy improvements will be made. As a result, NAR strongly opposes such an approach.

Before branding rural homes and buildings with labels, consumers require a better understanding of energy efficiency and the tools to turn information into action. For this reason, NAR supports:

A. Raising public awareness about energy efficiency programs and information.

B. Encouraging the Federal Government and the states to provide financial incentives to consumers to improve homes and buildings.

By developing the infrastructure and education, and providing the right incentives, property owners will make the energy improvements that will achieve real energy savings.

Training and Certification Standards

While NAR recognizes the need to address the training of workers to ensure that qualified work is performed, too many standards and training criteria will stifle entrepreneurial job creation and hinder the ability of small businesses to respond to rising retrofit demand. "One-size-fits-all" guidelines coming from inside the Beltway generally do not fit all the varying markets across the country. The Federal Government must strike a careful balance between creating a consistent set of guidelines that will increase consumer confidence and promote a stable and reliable national home retrofit workplace on one hand, while on the other ensure that local businesses are not hindered in their ability to respond to demand for this work.

In addition, while NAR appreciates Congress' efforts to encourage homeowners to make voluntary, incentive-based energy efficiency improvements, we would note the planned implementation of an EPA rule threatens to derail these activities. The Lead Renovation, Repair and Painting program applies to all residential and child-occupied facilities built before 1978 where a child under the age of 6 or a pregnant woman resides. Contractors disturbing a painted surface, 6 square feet or greater inside the home or 20 square feet on the exterior must follow new lead safe regulatory requirements, including training, certification, work practices, notification, clean-up and record keeping. As a result, a wide array of home retrofit projects envisioned by Congress, such as new windows, weatherization, insulation and other activities will trigger this rule. The renovators who conduct this type of work will be required to be trained in all of the new lead-safe work practices.

Unfortunately, the EPA has been slow in getting the required training and certification programs in place to train a sufficient number of workers to be available to conduct both the normal renovation activities and the expanded energy efficiency retrofit projects anticipated by the report. As a result, while the bill would envision retrofitting across rural America, in reality there will be few workers qualified to perform the work, thus hindering the very market the Act claims to want to jump start. EPA should extend the compliance date for lead paint training and certification until there are a sufficient number of workers available.

Conclusion

We thank you for the opportunity to share the REALTOR® community's views on H.R. 4785, the Rural Energy Savings Program Act or "Rural Star" and related matters. We look forward to working with the Subcommittee to ensure the legislation provides rural property owners with the resources they need to make the energy improvements that will reduce energy costs while stimulating jobs in remodeling and renovation without stigmatizing communities or homes.

SUPPLEMENTARY MATERIAL SUBMITTED BY CHARLES ADAMS, CHIEF ENGINEER AND DIRECTOR OF GOVERNMENT AFFAIRS, A.O. SMITH CORPORATION

Hon. TIM HOLDEN,
Chairman,
Subcommittee on Conservation, Credit, Energy, and Research,
House Committee on Agriculture,
Washington, D.C.;

Hon. BOB GOODLATTE,
Ranking Minority Member,
Subcommittee on Conservation, Credit, Energy, and Research,
House Committee on Agriculture,
Washington, D.C.

Dear Chairman Holden and Ranking Member Goodlatte:

I have received the additional question from Congressman Phil Roe submitted for the record of the House Agriculture Conservation, Credit, Energy, and Research Subcommittee hearing on H.R. 4785, the Rural Energy Savings Program Act. I appreciate the Congressman raising this important issue for the hearing record and am pleased to respond.

The ENERGY STAR® program serves an important purpose, but the Environmental Protection Agency (EPA) has not necessarily designed it with rural consumers in mind. A primary goal of H.R. 4785 is to ensure rural consumers have access to the best energy-efficient products available to suit their needs. Limiting eligibility through the Rural Energy Savings Program to ENERGY STAR®-rated products will not achieve this goal, because the ENERGY STAR® program currently excludes highly-efficient water heaters that are best suited for rural homes.

As a specific example, many rural homeowners use electric water heaters. Only advanced-technology electric heat pump water heaters are eligible for ENERGY STAR®, as the program excludes electric storage water heaters (some of which are rated as highly as 0.95 EF). This limitation is not reasonable or practical for the rural homeowner given that, per a recent analysis by the Department of Energy,[1] forty percent of all homes may not have sufficient space to accommodate an electric heat pump water heater, and in the typically older, smaller homes and manufactured homes found in rural areas, the percentage would be much higher. It is vital

[1] See the Final Rule Technical Support Document (accompanying the Energy Conservation Program Final Rule: Energy Conservation Standards for Residential Water Heaters, Direct Heating Equipment, and Pool Heaters, 10 CFR § 430 (2010), Chapter 8, page 8–23, found at: *http://www1.eere.energy.gov/buildings/appliance_standards/residential/heating_products_fr_tsd.html.*

that the higher efficiency (0.95 EF) "conventional" electric resistance-element storage water heaters be covered by the provisions of H.R. 4785; otherwise, the only water heating option feasible for a very large percentage of rural homeowners will not be eligible for the incentive.

As noted in Congressman Roe's question, H.R. 4785 provides significant discretion to rural utilities to determine which products should be eligible under their Rural Energy Savings Programs. A.O. Smith is concerned that, for matters of ease or simplicity, rural utilities will defer to the judgments made by the EPA administrators of the ENERGY STAR® program and limit program eligibility to products with the ENERGY STAR® label, which would greatly restrict choice for rural consumers. As such, we ask the Committee to consider including language in H.R. 4785 that will urge rural utilities to not impose this limitation when designing their own programs.

Again, thank you for providing me with this opportunity to submit additional comments on this important issue for the hearing record. Please do not hesitate to contact me again should you have any further questions.

Sincerely,

Charles Adams

CHARLES ADAMS,
Chief Engineer and Director of Government Affairs,
A.O. Smith Corporation.

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