September 26, 2012

Michele Brooks
Director, Program Development and Regulatory Analysis
USDA Rural Development
1400 Independence Avenue SW, Stop 1522
Washington, DC 20250-1522

Dear Ms. Brooks:

We, the undersigned, submit the following comments in support of the U.S. Department of Agriculture Notice of Proposed Rulemaking in *Federal Register* Vol. 77, No. 144 dated July 25, 2012, (amend 7CFR Parts 1710, 1717, 1721, 1724 and 1730) regarding the Rural Utilities Service "Energy Efficiency and Conservation Loan Program" (Program). The Rural Utilities Service (RUS) is proposing policies and procedures for loan and guaranteed financial assistance in support of energy efficiency programs, including renewable projects, sponsored and implemented by rural electric cooperatives (Borrowers) for the benefit of rural residential and commercial members (Members) in their service territory. We anticipate that this Program can accelerate the adoption of innovative strategies, such as on-bill financing, enabling homeowners and small business to borrow the money for energy efficiency improvements to their homes and facilities and repay it as part of their electric bills.

Access to Capital

This Program can be an important catalyst in providing affordable financing for improving the energy efficiency of America's existing rural housing stock and commercial buildings. Many homeowners and small businesses lack the necessary capital for the initial investment to implement energy efficiency improvements and renewable energy systems that will lower energy bills, enhance their comfort and improve indoor air quality. Moreover, the program can provide important community benefits, including local job creation, increased economic activity through supply chains, reduced emissions and deferred need for increased generation capacity. To further maximize resources, the Program should be coordinated with other state and local initiatives, such as the energy efficiency initiatives of state energy offices.

Focus on Maximizing the Direct Benefit to Customer

The Program will also enable RUS borrowers to finance energy efficiency projects in their own facilities and equipment to decrease energy costs across the entire system. While these energy efficiency and demand reduction activities undertaken by the utility itself on their systems and facilities will indirectly benefit the end-use consumers, we encourage the Program to focus on maximizing the direct benefits to Members in the form of re-loaned financing initiatives, such as on-bill financing, that has shown itself to be a convenient and straightforward repayment method for consumers.

Deep Impact Projects

The proposed RUS regulations have set minimum performance thresholds in the form of percentage increases in system efficiency. We support these minimum performance thresholds to encourage whole-house retrofits which have been shown to deliver much deeper energy savings than numerous other approaches and which we believe are the most cost-effective way to reduce residential energy use.

Provide Flexibility to Address Local Needs

We further support the intent to facilitate flexibility for the Borrower's Program consistent with the resources, usage trends and consumer profiles in its service territory. Several of the following comments support this flexibility theme to allow the eligible Borrower to develop and implement the Program in a manner consistent with the over-arching RUS goals and Customer needs.

The 1% Interest Rate Cap Should Be Raised

The proposed rule limits the amount the electric cooperatives as Borrowers can increase the re-loaned interest rate they can charge Members to a maximum of only 1% above the established direct U.S. Treasury daily rate. We are concerned that this 1% might be too restrictive, particularly in the early years of the program ramp-up when the loan processing and servicing costs may be more expensive than later when the eligible Programs are more robust with higher activity rates that provide greater economies of scale.

The 4% Administrative Cap May Also Be Too Restrictive

RUS has requested comments on the 4% limit of the loan Program budget that may be used for administrative and other soft costs, such as marketing expenses. To design the Program, develop materials and outreach strategies, help recruit and possibly train local contractors, put in place quality assurance procedures, etc., can quickly drain the allotted Program start-up costs and this 4% limited amount. RUS is encouraged to consider the 4% administrative cap as more of a guideline, rather than a hard rule, and instead to require further information in the business plan of the Borrower that clearly documents and justifies their need to exceed this initial level.

Link Program Appliance and Equipment Performance to ENERGY STAR®

RUS requested comments on what might be the appropriate performance thresholds that should be set to ensure products purchased with loan funds are significantly more energy efficient than conventional products, have reasonable payback periods, and perform at least as well as conventional products. RUS is encouraged to coordinate with U.S. Department of Energy and the Environmental Protection Agency on promoting the ENERGY STAR® brand, to further increase the rural consumer awareness of ENERGY STAR® products and to eliminate possible confusion with any alternatively established performance thresholds. Therefore, to be consistent with other national, regional, state and local energy efficiency initiatives, the eligible Programs should encourage improvements to appliances, building envelope and heating and cooling systems that, when feasible, meet the ENERGY STAR® product levels.

Encourage Further Program Evaluation Activities

For an eligible Program, Section 1710.408 requires the submission of a quality assurance plan by the eligible Borrower. As a component of this quality assurance plan, RUS should encourage the eligible Borrower to include information on conducting periodic impact evaluation analysis to compare actual results to the Program's targeted Btu savings goal. While the required follow-up audits (test-out audits) will confirm whether the efficiency improvement expectations are being met per Member installation, further analysis will be needed to determine how the types and degree of Member installations are progressing towards the savings goal or whether Program adjustments or enhancements may be needed. To keep the evaluation costs low, it is recommended that this analysis be done on a statistically valid, random sample of participating Members.

A $250 Million Program May Be Insufficient

In addition, RUS requested comments on whether the proposed Program should have a maximum funding level of $250 million annually. Depending on the types and extent of activities and investments to be implemented in the Borrowers' Programs, this level of funding could penetrate approximately 35,000 to 50,000 Member households per year (assuming per household costs of $5,000-$7,000). Considering the number of eligible Borrowers, as either rural generation and transmission or distribution entities and the extent of their Member base, this amount may only service a fraction of the need and interest. We believe it is important to address the need and to achieve the enormous benefits possible as quickly as possible.

In conclusion, the undersigned appreciates the efforts of RUS to encourage and facilitate energy efficiency as a least cost resource strategy. Please note, we may also individually provide additional comments by the September 26, 2012 deadline.

Thank you for the opportunity to comment.

Sincerely,

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