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EMPOWERING RURAL COMMUNITIES, THE STATUS AND FUTURE OF THE FARM BILL'S ENERGY AND RURAL DEVELOPMENT PROGRAMS

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

ONE HUNDRED ELEVENTH CONGRESS

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EMPOWERING RURAL COMMUNITIES, THE STATUS AND FUTURE OF THE FARM BILL'S ENERGY AND RURAL DEVELOPMENT PROGRAMS

Wednesday, July 21, 2010

UNITED STATES SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
Washington, DC

The Committee met, pursuant to notice, at 9:07 a.m., in Room SR328A, Russell Senate Office Building, Hon. Blanche Lincoln, Chairman of the Committee, presiding.

Present: Senators Lincoln, Stabenow, Nelson, Klobuchar, Gillibrand, Chambliss, Roberts, Johanns, Grassley, and Thune.

Chairman LINCOLN. Good morning. The Senate Committee on Agriculture, Nutrition, and Forestry will now come to order. I am certainly pleased to hold our second hearing as we look back at the provisions of the 2008 Farm Bill and look forward to writing the 2012 Farm Bill.

Today, we'll be discussing two very timely and interrelated issues, energy and rural development.

Welcome, Senator Roberts.

Senator ROBERTS. Where do you want me?

Chairman LINCOLN. Yes, wherever you'd like to sit. We're just glad you're here.

Senator ROBERTS. Want to change places?

[Laughter.]

STATEMENT OF HON. BLANCHE L. LINCOLN, U.S. SENATOR FROM THE STATE OF ARKANSAS, CHAIRMAN, COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

Chairman LINCOLN. Maybe not. We have done that.

As always, I am enormously honored and grateful to be joined by my good friend, Senator Chambliss, who I know shares all of our passion and commitment for rural America and pleased that he is here.

We have a number of excellent witnesses that we will hear from today.

I would like to extend a very special thanks to a fellow Arkansan, General Wesley Clark, Mr. Dennis Sternberg, and Ms. JoAnne Bush for joining us today. And it is also, again, a special thanks to Undersecretary Dallas Tonsager for his attendance and input.

As a farmer's daughter and a product of rural Arkansas,

I am honored to Chair the Committee on Agriculture, Nutrition, and Forestry. 48 percent of our state's population lives in rural areas. Arkansans now know firsthand that rural America is often the first to feel the impact of economic downturns and is often, unfortunately, the last to reap the rewards of the economic recoveries.

The development and deployment of renewable sources of energy produced in rural America presents an enormous opportunity to change that trend. It is critical that we effectively utilize every tool at our disposal to create jobs, put our economy back on track, and reduce our dangerous dependence on foreign oil.

It is not a coincidence that the majority of the energy programs that we will hear about today are implemented by the Rural Development Department at USDA. A flourishing renewable energy industry will bring good paying jobs and investment to Arkansas and rural communities all over our country. The Farm Bill energy programs provide a model which should be the basis of our national energy policy. We need to develop biofuels and biomass energy policies that work for rural America. And in May of this year, just one month, we sent $27.5 billion overseas to purchase oil, much of that to hostile foreign governments. Imagine, just imagine, if we had invested $27.5 billion in renewable and clean energy development in rural America every month, what we could do.

In Arkansas, if we used only a fraction of that money to build just ten cellulosic ethanol facilities, we could create 2,090 long-term jobs, generate $216 million in economic activity, and reduce Arkansas' need to import oil by 50 percent. I do not know about you all, but that sounds like a great, great, story and a good, sound investment.

Our farmers, ranchers, and foresters are ready for the challenge. They are innovative and eager to expand their role, to also provide an inexpensive, sustainable, and safe supply of renewable fuel and energy. However, our producers and forest land owners need new markets and new opportunities to help ensure prosperity in our rural communities, and that is why we must ensure that the programs we have enacted in the Farm Bill are achieving this vital goal. We can find beneficiaries of the Farm Bill's energy initiatives all across this great country, and I know there are a number of success stories in Arkansas, for example, Future Fuels Chemical Company in Batesville. It employs about 530 people and provides expanded markets for our farmers in addition to providing bio-based chemicals, products, and biodiesel.

Arkansas has also greatly benefited from the Rural Energy for America Program, the REAP program. These grants provide funding for projects like weatherization of poultry houses, energy efficient grain dryers, and the installation of solar panels to provide renewable energy.

That is the positive side. I do not want my colleagues or certainly Undersecretary Tonsager to think that I am looking at these programs through rose-colored glasses. We have a long way to go.

Programs such as the Biomass Crop Assistance Program, the BCAP, have been mired with controversy throughout their implementation. The Biorefinery Assistance Program has also been difficult and slow to get off the ground. And I look forward to continuing my work with Secretary Vilsack and Undersecretary

Tonsager to find solutions to the problems with these programs and others that we might uncover at this hearing today.

The rural development initiatives of the Farm Bill contain a number of opportunities that provide our rural communities with the tools that they need to thrive and create new jobs.

I have seen firsthand how critical rural development initiatives are to the economy of my home state. Recently, I worked with USDA to secure 55 million in funding to help the Ozark Mountain Public Water Authority in Arkansas provide safe, potable water to 22,000 residents in north central Arkansas. I know it is very hard for people here to believe that there are so many communities throughout our Nation that still do not have safe water.

In addition to providing residents with safe drinking water, the construction of this project will create nearly 1,000 jobs in a part of our state that could desperately use them.

USDA's Community Facilities Program, which helps communities improve municipal facilities, obtain first responder equipment, and build hospitals. It is also a great example of a successful initiative that we must foster.

I know my staff starts to cringe because I mentioned it absolutely every time I go into a community—is using that Community Facilities Program.

Rural Development also offers several initiatives that are helping to create jobs by providing access to capital to rural small businesses. Without critical investments in infrastructure, a safe water supply, and affordable housing opportunities, it is absolutely impossible for rural communities to attract new industries, such as the type of renewable energy production opportunities that we will discuss today.

Additionally, we are seeing that broadband Internet service is a requirement for many businesses when they consider where to locate. Rural America will not be able to compete with the rest of the country without. I know that there has been tremendous interest in broadband funding, and I plan to hold a hearing specifically on the Broadband Initiative Program in the near future. So, I hope my colleagues will know that we will definitely focus in on that specifically.

The Farm Bill is the most important legislation that we consider on behalf of rural America, and the programs we will discuss here today are the key to creating jobs, rebuilding the rural economy, and putting our country on a path to ending our dependence on foreign oil.

As Chairman, nothing is more important to me than empowering our rural communities and ensuring that future generations have the opportunity to enjoy the quality of life that rural America offers.

Again, I want to thank all of you for being here. I would love to turn to my ranking member, Senator Chambliss, for his opening statement, and then we will move to our panel.

STATEMENT OF HON. SAXBY CHAMBLISS, U.S. SENATOR FROM THE STATE OF GEORGIA

Senator CHAMBLISS. Well, thanks, Madam Chairman, first of all, for your commitment to agriculture, your friendship, and your lead-

ership here, and we are convening this hearing to review the implementation—continue to review the implementation of the 2008 Farm Bill.

Last month, we discussed commodity programs in Title I of the Farm Bill and had a very good discussion about what is working well for our farmers and ranchers and where we can improve with the next Farm Bill. Today, we will examine energy and Rural Development Programs that we authorized in the last Farm Bill. As we hear the perspectives of the USDA and our witnesses who are on the ground everyday using these programs, I look forward to gaining an understanding of how these programs are working, and also where we have room for improvement. Our goal should be to ensure that the Farm Bill programs are helping deliver new opportunities to our citizens through the rural development and energy tools in order to keep a strong foundation for rural America. Undoubtedly, the grant and loan programs administered through the USDA Rural Development mission area are a crucial part of the support mechanism the federal government uses to complement private sector investments and local efforts.

It is important we reflect on how these programs are working based on the 2008 Farm Bill changes before we begin to consider the next one.

Beginning back in the 1930s, the Department of Agriculture has been aiding rural families struggling with the lack of basic services, such as clean water and electricity. Over time, Rural Development efforts at USDA have expanded to support a wide array of programs, including telephone service, broadband infrastructure deployment, small business assistance, renewable energy and advancement, as well as value added agriculture product development, just to name a few. While the conditions in rural America have changed a great deal over these last 80 years, these geographically large but population small rural economies are still at a disadvantage to urbanized ones.

Today, we know that fewer people are farming in rural areas and they are seeking sources for off-farm income. Additionally, these areas are not keeping pace with the population growth in the rest of the country. During the past decade, the U.S. population has increased by a national average of 9.1 percent, but rural counties gained only 2.9 percent. Couple this with dire state budget shortfalls and the broader global economic conditions, and you quickly realize how rural areas are struggling to create jobs, provide sufficient services and avoid out-migration. As we respond to these obstacles, we must ensure that those who live and work in rural America, our agriculture producers are prepared to meet the continued demands of the 21st century. They deserve a vibrant rural community in which to raise their families and appropriately targeted Rural Development Programs are essential to community development. Whether lowering input costs through increased energy efficiency or providing unique marketing opportunities for the commodities they produce, Rural Development Programs should benefit those who nurture our rural communities, namely farmers and ranchers.

I believe that the future success of rural America is dependent on maintaining a strong agriculture sector in conjunction with vi-

brant rural economic development efforts. Chairman Lincoln. Thank you, Senator Chambliss. We do have three panels that we are anxious to hear from today. In the interest of time, if our Senators have any opening statements, we would certainly like to request them to be submitted for the record, or if you would like to make a brief one, we are more than welcome to hear from you.

Senator ROBERTS. I will do it later.

Chairman LINCOLN. Thank you, sir.

We would like to now welcome Undersecretary Tonsager to the Committee today.

Prior to rejoining USDA, Mr. Tonsager served on the Board of Directors for the Farm Credit System Insurance Corporation and the Farm Credit Administration. In 1993, then-President Bill Clinton selected Mr. Tonsager to serve as USDA South Dakota State Director for Rural Development.

Welcome back to the Committee. We are glad to have you. Mr. Undersecretary, your written testimony will be submitted for the record, and we certainly would like to ask that you keep your remarks to five minutes. So, welcome to the Committee.

STATEMENT OF DALLAS TONSAGER, UNDERSECRETARY, U.S. DEPARTMENT OF AGRICULTURE RURAL DEVELOPMENT

Mr. TONSAGER. Thank you, Madam Chairman, member Chambliss—Senator Chambliss. We appreciate this opportunity to be here today.

We also want to express our appreciation for the close collaboration we have had in working together on rural development issues with you all in this last year-and-a-half since our beginning of many of us coming on board with the new Administration.

We share a deep commitment to rural America and an understanding of its unique challenges and opportunities, and we look forward to a continued partnership with you to bring those opportunities to fruition.

We are committed to the future of rural communities. Rural America includes some of the Nation's most dynamic, rapidly growing areas, but the aggregate statistics tell another story. Rural America, on average, is older, less educated, lower income than the Nation as a whole, with an average per capita income of $11,000 below the urban and suburban averages. The unemployment and poverty rates are higher. Nine out of ten of the Nation's persistent poverty counties are rural. Assisting these communities in building a better future is a high priority.

A second priority is renewable energy for environmental, economic, and national security reasons alike, we, too, wish to diversify our supply of fuel, reduce our dependence on foreign oils, reduce our carbon footprint, and develop our abundant renewable energy resources. This is an urgent national need, and because renewable energy is largely rural energy, it is also an historic opportunity for investment, jobs, and wealth creation in rural communities.

We are committed to these objectives, and we are grateful to the Congress for its vision in the 2002 and 2008 Farm Bills which gave USDA tools to support this vital national effort.

USDA's strategic plan published earlier this summer by Secretary Vilsack focuses squarely on these challenges. The Secretary has identified five pillars to support a new foundation for growth and opportunity in rural communities.

First, the development of new markets to provide additional income opportunities for farmers and ranchers by promoting exports abroad, and supporting domestic, local, regional food systems that keep wealth in rural communities.

Second, to provide new opportunities for prosperity and small business growth by investing in rural broadband access.

Third, creating green jobs that cannot be exported by promoting the production of renewable energy in communities across the country.

Stimulate economic—rural economies by promoting outdoor recreation like hunting, fishing, and other activities that create jobs, as well as conserving the national resources we cherish, and creating income opportunities for rural landowners by facilitating the creation of ecosystem markets that reward them for their taking care of the environment.

It is a challenging agenda. In the short-term, the implementation of the last Farm Bill has coincided with the most severe economic crisis since the 1930s, and the response—the Congress provided an additional $4.3 billion in our budget authority to support an estimated $21 billion in investments in broadband, single family housing, community facilities, water and waste services, and business development.

As of July 2, 2010, Rural Development has committed over $17.4 billion of this total. My written testimony details the numbers. We are on track to fully obligate our Recovery Act dollars by September 30th.

In the longer term, however, I am convinced that rural America is an entering an era of remarkable opportunity. Rural Development's job, whether it is broadband or renewable energy or local food systems or a provision of a central infrastructure and community services is to ensure that rural communities continue to receive the help they need to compete and thrive.

So, in closing, as we look forward to the 2012 Farm Bill, let me briefly note some key areas for further discussion.

First, our ability under our—to provide a flexible mix of loans and grants to broadband applicants have been extremely important. The Farm Bill Loan Program does not have this flexibility. That was an issue that was discussed at length during the consideration of the last Farm Bill, and it is a question that we would surely like to be revisited.

Secondly, we would like to encourage—to be eager—we would be eager to discuss with you options for streamlining and rationalizing our program delivery. Rural Development administers over 40 programs, many of them are small and overlapping. This is a complex issue. We understand that members often have very targeted objectives in mind in crafting program authorities, but there may well be significant administration efficiencies to be gained through consolidation, provided that there is no negative impact on services, and we are open to this discussion.

Another important initiative for the Obama Administration is regionalism. We are encouraged that the President has chosen to seek a pilot funding for regional initiatives in his 2011 budget, and we look forward to continuing this discussion as we move towards the 2012 Farm Bill.

Finally, we expect the definition of rural will be as contentious in the next Farm Bill as it was in the last. We have, in draft, a report to Congress on this question, and we will submit it to you later this summer.

It is easy to describe the difficulties with the existing definitions of rural; the challenge is to identify a different definitional scheme that does not create as many problems as it solves. It is a difficult question, as the Committee fully appreciates, and I know that we will have extended discussions with you as we move forward.

These are the sensitive questions on which we work collaboratively with stakeholders and Congress before proposing significant changes. I am glad that the Committee is beginning this discussion now in order to provide time for thoughtful consideration. I know that you share our commitment to improving our service for rural America, and I welcome your thoughts, comments, and questions as we begin this discussion.

Thank you, Madam Chairman.

[The prepared statement of Mr. Tonsager can be found on page 95 in the appendix.]

Chairman LINCOLN. Thank you, Undersecretary Tonsager, for your testimony. I will just begin on my questions.

But first, we would just like to, again, reiterate, as I mentioned to you earlier this morning, there is an unbelievable enthusiasm and excitement in rural America about the role that they have to ply in both lessening our dependence on foreign oil and being able to reach their potential in adding both to the revitalization of our economy, and really solving some of the challenges that we face in this country, and I hope that we will not waste that enthusiasm or excitement or potential, but really work hard to make sure that we make available to them an environment through their government that will allow them to really play a strong role.

First, I would just touch on the fact that Congress has authorized two renewable fuel standards: The first focused on corn-based ethanol, while the second aimed to increase production of advanced biofuels from non-food sources. I believe we have got to move forward on advanced biofuels, and doing so will avoid our fuel needs competing with our food supply, which is obviously an issue.

Unfortunately, we are falling short, far short, of meeting our advanced biofuel targets. The advanced biofuel industry faces many hurdles, including an inability to acquire debt to finance projects. With this problem in mind, we authorized the Biorefinery Loan Guarantee Program in the 2008 Farm Bill. I have been very disappointed that, two years later, only two loan guarantees have been issued under the loan guarantee program. I was hoping you could share with the Committee what measures you are taking to increase the participation in that program, and also would be interested in hearing about additional measures that you are taking through other Farm Bill programs to help us achieve renewable fuel standards.

Mr. TONSAGER. Yes——

Chairman LINCOLN. Those targets, particularly.

Mr. TONSAGER. I agree with you regarding the enthusiasm. I think it is a very exciting time for all of us.

I think, if I could, for—just briefly talk about the advanced biofuels in general, I think we are focusing on a number of fronts, because what we believe is the private sector will be the ones that build that biofuels industry. Everything we can do to build confidence in that new industry across the board will increase our opportunity to get people to invest and to lend towards the creation of that industry. And I think we are trying to learn from some of the things we learned from in the ethanol industry when that was successfully grown earlier in this decade and the last decade.

As we look at the challenges we are faced with right now, there is a belief—there is not the level of belief in technology and some of the other components associated with the industry. So, we see our goal across the board is to build confidence and build confidence in opportunity. Part of that, of course, is the 9003 program and the loan guarantees associated with it.

We have had 17 applications for the program. Of those, 10 had to be rejected because they did not have lenders associated with them. So, at this point, we are seeing a holding back, I think, on the part of the lending community that is significant, and I think it has a lot to do with the recession and the difficulties of the recession.

So, as we move forward, our strategy is to look for the technologies, help prove those technologies, demonstrate the usableness of those technologies, make the case for the viability in regions across the country about the economics of the situation. We were excited to have in our door the other day the airline industry who has a 20-billion gallon demand for jet fuel and wants to get it from all green sources.

The Department of the Navy wants to get 50 percent of their energy from green sources in the next ten years.

So, I think the more we can project to the community, to the investors, to the lenders, to farmers, producers that this is not just a small opportunity, it is a very large one the more excitement we can get.

So, we are disappointed, too, in the response to the 9003 program. We have taken for public comment, we are considering those comments, and considering adjustments to the program that could help us attract lenders.

Chairman LINCOLN. Great. Well, I think confidence is built by certainty, and I know certainly the idea of the tax extenders that we are working on right now for biofuels is a critical part of making sure those investors are feeling confident of the certainly of where we are going to be going and what we are going to do with that.

So, and I know we can make jet fuel out of chicken litter, and I know we have a lot of poultry litter, so—just briefly, the American Recovery and Reinvestment Act provided Environmental Protection Agency the authority to use a significant portion of its funding for water projects in the form of loan forgiveness without regard to income or population of the area to be served by those

projects. This authority was not provided to the rural development programs. USDA's current system requires a community to be within 81 percent to 99 percent of the state's non-metropolitan median income to qualify for the immediate interest rate or to be able to receive that grant money.

I am certainly not proposing a widespread change to Rural Development water and wastewater programs, but it does seem to me that this structure we have today creates barriers for some real rural communities. I know I have seen it in my state, and I am sure others have, too. They are having a very difficult time in the debt servicing large loan payments without any grant to reduce that cost, and just would certainly ask that, if you think that the Committee should provide you with additional statutory authority to be able to serve these communities like those in my state that really do need some assistance but are not being able to find it because of that lack of authority.

Mr. TONSAGER. We would be happy to explore it with you, of course. We have, in spite of the RF funds, we still have a $3 billion backlog on funding for water and waste systems that of course we are wanting to address.

So, I think this subject, as well as the rural definition subjects, are going to merit a lot of our discussion time on how we serve some of those communities that sit on the edge, so to speak, of our program service area. So, we would be happy to discuss that with you. We would be interested in those authorities, but of course we would want to strike the balance necessary to make sure that the communities—low-income—have their opportunities to get the grant level they need for affordability.

Chairman LINCOLN. That is great. Well, I will look forward to that discussion and certainly want to seek it out in a balanced way. I just had a little bit of concern that EPA was having that authority and you were not.

Mr. TONSAGER. I appreciate that.

Chairman LINCOLN. So, we want to make sure we look to it.

Thank you.

Senator CHAMBLISS.

Senator CHAMBLISS. Thanks, Madam Chairman.

Mr. Undersecretary, I was visiting with one of my rural electric co-ops not too long ago, and the comment was made by the manager of that co-op that they are in a fast growing area of our state and they are a participant with some other co-ops in the construction a new coal-fired power generating plant that was having some problems getting off the ground because of environmental challenges and whatnot but now, thank goodness, they are underway. But his comment that was important to me was that, if we do not get this plant up and running, then we have got a problem and we are going to be limited in the short term, before the new nuclear facilities that are under construction that will not be coming on line for several years—and if we do not get this coal-fired plant going, then we are not going to be able to serve our community. We are simply going to have to turn— particularly commercial—customers away. So, that is beginning to be more and more of a concern, I think, around the country.

The 2008 Farm Bill directed the Secretary to conduct a study on electric power generation needs in rural America, and that study explains that the demand for new generation capacity in rural areas is increasing just as it is in rural areas, and that rural cooperatives will need to double generation capacity by 2020 to meet the projected growth.

How do you envision this demand being met to ensure that rural America continues to have a reliable source of electric power, and can you describe how you expect the RUS Loan Program to function in helping to meet this demand, given the current limitations on that program?

Mr. TONSAGER. We, of course, are anxious to make sure, in our work, that every time that somebody throws a light switch on, the lights come on, and I think that is a measurement for all of us.

We are also anxious in our work to make sure affordability continues to exist for everybody who uses rural electric power. We want to explore all areas.

We do have limitations on the things we can do at this point. We have been working closely with the National Rural Electric System and appreciate very much their skill sets relative to this.

I think the nearest-term subject is efficiencies, and I know I have had several discussions on this subject, and there are opportunities within our programs regarding helping with the efficiencies, and the National Rural Electric System has done a fabulous job in the past working with their customers to make that happen.

We want to use our resources, the authorities given to us by Congress, to the fullest extent we possibly can to make sure there is adequate generation capacity. The targets regarding environmental and carbon discharge, of course, are part of the dialogue we have to have going forward.

Renewable energies, which we are doing quite—a little of—are proven technologies that are funded through the RUS Program. So, we typically work with wind, solar, and some of the technologies that are clearly proven and they are the only ones we can finance through the direct loan program, and we hope to build on those as part of the supply chain for rural America.

Senator CHAMBLISS. I know you are working next year's budget, and I certainly hope that we are going to see rural America given its due consideration from the standpoint of electric generation and distribution.

The American Recovery and Reinvestment Act provided over $7 billion to help bring broadband to parts of the country, rural and otherwise, that are still underserved. Once the Recovery Act money is obligated, how do you plan to ensure that our U.S. broadband loans made through the Farm Bill are not overlapping with stimulus awards, and when do you intend to fulfill your obligation to implement the Farm Bill Program?

Mr. TONSAGER. The—we have a network of employees that directly go out and check out the applications provided to us on the broadband stimulus package. They are to test and look for the overlap potential in each geographic area where we have proposed projects. We believe that will help minimize the overlap risks that we may have in those areas.

We anticipate on the broadband Farm Bill Program having rules out by this fall, and that is the goal that we have on that area. We want to keep moving forward and provide the services that the broadband program has in the Farm Bill, and continue to seek applicants that might find that program useful.

During the course of the last 18 months, of course, people have focused their attention on the ARRA package broadband program that has been—has lots of grant in it.

Senator CHAMBLISS. We have a constant problem of competition between those broadband companies that are funded by RUS and other private sector companies that are not, that do not have access, and what kind of focus are you giving to that particular issue as we move forward?

Mr. TONSAGER. Well, again, we are seeking to verify the applicants' claims regarding the availability under the requirements of the Act to make sure that their overlap is minimized. And since we do a field operation of Rural Electric employees, particularly, and RD staff, we are trying to verify the claims before approving any particular grant that it does meet the requirements.

Senator CHAMBLISS. Well, as you go through that, you are going to have a lot of applicants that, frankly, meet the requirements, but you have a rural county, a metro county, a rural county, and in order to get from rural county to the other a provider goes through that more urbanized county, and that is where the conflict comes in, and you need to get real focused to that and direct some attention on how we are going to deal with that. We need to make sure that we get the broadband provided to truly rural areas, but when it has a negative impact on the private sector and their capital investment, then it becomes a major problem. So, I urge you to take a close look at that as we move ahead.

Mr. TONSAGER. Yes, sir.

Senator CHAMBLISS. Thank you, Madam Chairman.

Chairman LINCOLN. Thank you, Senator Chambliss.

Senator THUNE.

Senator THUNE. Thank you, Madam Chair.

And I want to thank Senator Chambliss, too, for putting together this hearing and focusing on the 2012 Farm Bill. The last Farm Bill, I think, was really good in terms of looking at energy issues, and the energy title in there has helped us advance in a lot of respects.

And I appreciate the discussion about the loan guarantee program, because that is something that is critically important in my state, too.

And I would say to Undersecretary Tonsager that I have heard from a lot of cellulosic ethanol companies that one of the difficulties in participating in the federal loan guarantee program, either at USDA or Department of Energy is because many lenders require the applicant to have this off-take agreement which is a contract to sell fuel in the future.

And I guess my question would be, how can we help potential applicants overcome that particular barrier to participation in the loan guarantee program.

Mr. TONSAGER. The off-take agreements, of course, have proven themselves generally in the ethanol industry in making sure that

the credibility—or the credit became available for the creation of the projects. I think we do need to look at the term of the off-take agreements, because quite often we are looking at a very long term for the off-take agreements, and consider that.

It is our hope that, as we continue to see interest by parties such as the airline industry, that those longer-term agreements could potentially be provided.

I do think we need to look at the market part of the ethanol industry, as I am reminded quite often, if we do not grow the opportunity for consumers to access biofuels, we are going to be very limited in what we can do going forward in the industry. So, I think part of the off-take agreement discussion would be, as the market side, and making sure that access can exist where we can substantially grow the industry, will give a chance for those off-take agreements to be possible.

Senator THUNE. And which leads me to my next question, but do you believe that the EPA, if the EPA were to approve E15 that lenders would be more likely to participate in the program to provide financing to some of these cellulosic ethanol plants?

Mr. TONSAGER. I would hope so. I think it would be a general sense of growth has to be provided. They will look for trends, having regulated the farm credit folks and being involved with other lenders, they are going to look for that sense of growth that exists in being a decision that would enlarge the percentage of Blend is going to be important, but also the mechanical part of making sure we can offer that to consumers.

Senator THUNE. From your perspective, what impact is the E10 Blend having on the renewable fuel industry and in agriculture in general? I mean, how important is it that we get to E15 and get there soon?

Mr. TONSAGER. I think it is very important that we grow that market, and I think that mix, that blend mix, is going to be critical to that, yes.

Senator THUNE. As you know, the EPA is delaying that decision—I mentioned this to Secretary Vilsack when he was in a couple of weeks back, and what is USDA's role in that decision and how actively are you all advocating for getting the higher blends approved and trying to bring EPA around to what many of us agree is the right conclusion with regard to higher blends?

Mr. TONSAGER. Certainly, the Secretary has been one of the prime advocates, and I agree with him in that advocacy.

Senator THUNE. Do you believe that our federal forest lands have the potential to provide a source of biomass for energy production in the U.S.?

Mr. TONSAGER. I do. I think there is opportunity and I hope that there becomes flexibility available for us in using particularly the waste material associated in the forest lands.

We are—we do have projects, particularly one project, that is looking at wood base—or is developing for wood base to ethanol production, and I think there is also an opportunity in electrical generation in some areas of the country where we can have that capacity for generation to be used for that material.

Senator THUNE. Do you believe that the definition of renewable biomass in the 2008 Farm Bill strikes the right balance between

meeting our energy needs and also ensuring that we are managing our forests in a responsible manner?

Mr. TONSAGER. Yes.

Senator THUNE. Does that existing definition of biomass—would it be helpful, too, if that were applied to the renewable fuel standard?

Mr. TONSAGER. I am sorry, I have not contemplated that, exactly, but it would seem to make sense to me, yes.

Senator THUNE. Good. We have had a concern for some time that the definition be consistent in federal law so that some of these projects that might be able to use biomass that is located in our federal lands would be useful in terms of generating biofuels in this country.

And there has been an, as you know, I think, ongoing debate about that up here, various Committees of jurisdiction warring with each other about how best to define that. We thought the Farm Bill struck the balance and would like to see that applied more generally and obviously applied to the RFS.

Let me ask you one last question. There has been a lot of interest in the Biomass Crop Assistance Program or the BCAP program. Can you provide the Committee a general sense of what types of projects have been approved to participate in BCAP, how many of those are related to transportation fuel, and what would be the budget implications if the program were more narrowly tailored to biofuels?

Mr. TONSAGER. I am sorry; it is not my program area——

Senator THUNE. I understand that. I know it is an FSA program, but——

MR. Tonsager. From our perspective, I would just generally say we are interested in every opportunity to get the biomass—get biomass as an energy source off the ground, and the BCAP program is a real opportunity to assist with that, but unfortunately I do not have enough information to give you a good answer. We could certainly, as part of our response to you all, get some information from the FSA.

Senator THUNE. Okay. I appreciate that. Thank you.

Thank you, Madam Chair.

Chairman LINCOLN. Thank you, Senator Thune.

Senator ROBERTS.

Senator ROBERTS. Thank you, Madam Chairman, and the Ranking Member Chambliss, who just returned, for calling this hearing to focus on our rural communities. And I would say anybody interested in rural development, including the Undersecretary, should be very thankful that we have your leadership, along with Saxby. You not only championed the production of agriculture, all of agriculture, but also rural development, and I thank you for that.

I want to thank especially the witnesses. Dallas, thank you very much for coming up. I know you are a busy man.

And General Clark, who is over there, holding up the bookcase, and Glenn English, who is protecting our flank over here in the audience.

General Clark, also in the Armed Service and Intelligence, I was very privileged to meet with him, work with him, when he was the

SAC here of Europe and protecting our national security in fine fashion with forceful leadership.

Thank you, sir.

And Glenn, I am sorry you left the Congress. We had a lot of English-Roberts amendments in the Farm Bills at that time that were past. Then you left before we could have any Roberts-English amendments. But anyway, thank you for being here.

Now, with all of that, I hope that does not count against me.

Before I ask my question of the Undersecretary, I just want to spend a moment painting a picture of the challenges that we face in Kansas, and that many of our rural communities face, and it is along the lines of the excellent report and summary that the Chairman did in regards to Arkansas.

I might just say, starting off, that the best rural development program we have—and this is a quote from former Congressman English on the floor of the House at one time— he said, the best rural development program we can have is farm income, and I think that is something that we ought to always remember.

But at any rate, of candidates, 627 cities, only a half a dozen, half a dozen, six, have a population of 50,000 or more residents, and less than twenty reach the 20,000 mark. That means 600 candidate cities and towns meet some definition of rural with regard to federal programs. So, when you say rural, obviously you are talking about candidates.

I think I have been to all of these communities for listening tours. We not only go to the grassroots, we go to the grass weeds, and we have enjoyed some of the best coffee, biscuits, gravy, and chicken-fried steak that you cannot get in this town that you will ever taste.

I appropriate the Undersecretary's testimony, as he points out our rural Americans are struggling. While urban areas fret over opportunities for growth, rural communities desperately seek relief from out-migration of our most precious resource, and that is our young people, and the loss of businesses.

And I also appreciate the Undersecretary's comments about rural communities working together. Your testimony states, "A holistic multi-community and multi-county approach will help address these challenges."

I am going to go a little bit further, and Madam Chair, I think we need a multi-agency coordination, if that has to be an acronym, it would be a MAC, and we need a big MAC—and I do not know if we need to have an acronym for that; everything else does, so we might as well do that.

But multi-agency coordination in regards to rural development and the preservation of our rural communities, Mr. Undersecretary, over the course of the last year, we have had every community, every grower organization, every farm organization, anybody interested in lending, anybody interested in rural development comes through my door, and I know that is the case with every member here, and they always bring forward the same concern. They are very positive in regards to rural development programs, but they are very concerned if not very frustrated over burdensome and over-reaching government regulations.

Senator Chambliss touched on this in regards to the clean energy coal plant they are trying to get started down in Georgia. Your testimony points out that 95 percent of rural income is earned off the farm, yet recently proposed government actions threaten, in my view, the viability of these off-farm opportunities.

Now, let me just name a few: non-science based standards over particulate matter or what some call rural fugitive dust. Rural fugitive dust is back. In the 1970s— actually, in the 1980s, when I was a member—I finally tracked down the person in charge of rural fugitive dust. She was from Massachusetts—where else?—and so, at any rate, I finally, out of exasperation, said, what do you want us to do? She said, well, you have all these gravel roads. Why don't you get water trucks to go out at 10:00 in the morning and 2:00 in the afternoon and spray the gravel roads? I indicated I was very favorable to this program if she would just supply the trucks and the water. But it is back: spray drift, atropine, EPA's potential carbon rural— KFO, the definition of navigable waters—here we go, again— playa lakes and very small farm ponds in Nebraska, Kansas, and—I mean, these are ponds where no self-respecting duck would ever land, and yet they are navigable waters; that is just ridiculous. And then we have levy certifications and I could go on and on and on and on.

So, Mr. Undersecretary, your agency in charge with helping improve the economy and quality of life in rural America, with so many rural communities concerned that your sister agency's actions—and I am talking about the Department of Labor and EPA primarily—also the White House, for that matter, result in the direct opposite of your goal. There are cross-purposes there, and that does not make much sense to me.

How does the Rural Development Agency work in a multi-agency fashion to address these concerns? You could sit down with Lise over at Labor at Carol at the White House and have a cup of coffee. I know the Chairman would love to come, the Ranking Member would love to come, I would love to come, if you let me in the door. And we are at cross-purposes here. Is there some kind of a meeting process that we could have a multi-agency coordination where you are for rural development over here but you are not stopping it over here with all these regulations that do not take into account a cost-benefit yardstick? There is a benefit yardstick, I know that; there is an agenda yardstick, I know that, but the cost part of it is the thing that really worries me.

Now, please forgive me for my rant. If you would like to comment, have at it.

Mr. TONSAGER. I guess the only thing I would say is the position I want to do with my agency is that it is our job at all times to advocate for rural citizens and do the best we can to put projects together for them. We want to be a problem-solving agency and address every problem we can and try and deal with it.

Now, that is maybe a simplistic response to your very complex challenges you described, but I think for our agency, most of us come from the rural development community. We have worked in non-profits, we have worked in lending institutions, we want to—and every day——

Senator ROBERTS. Yes, but what about the other agencies? I am talking about the Department of Labor and EPA with some of these regulations coming down that drive our farmers and ranchers and farm organizations about half nuts, not to mention people on the county commissions and everything else?

Mr. TONSAGER. We do have——

Senator ROBERTS. Are you meeting with them at all or——

Mr. TONSAGER. Yes.

Senator ROBERTS. Yes.

Mr. TONSAGER. We do meet with them. We do advocate for rural development, and we do look—typically, we are looking at programs they have that we think can be helpful to the mission. And HUD—others have resources that are available, so we try to tie together with those in a way that helps us move forward.

Senator ROBERTS. Well, I thank you for that, and just say that I know the Chairman and the Ranking Member, all of us here, will back you up in any kind of forceful leadership that you want, anywhere that you think you can have better coordination and maybe say, whoa, on some of this stuff so that we can stop and say, maybe we can do this another way, but so many things just pop out of the woodwork it does not even come in the Federal Register. All of a sudden, they wake up one morning and they have another mandate or another regulation to deal with.

Thank you for mentioning the President's initiative on exports. I hope, in his meetings with David Cameron, that that really comes to fruition. I would only remind everybody here that we have a Colombian, South Korea, and Panama trade agreement that had been languishing for several years. If we want to have an initiative, that would be a darn good place to start.

Thank you, Madam Chairman.

Chairman LINCOLN. Thank you, Senator Roberts. And as usual, I find myself agreeing with most everything you have said.

Senator NELSON.

Senator NELSON. Thank you, Madam Chair.

And I would like to associate myself with 98 percent of what Senator Roberts said.

Senator ROBERTS. By the way, how are things in the Big Ten?

[Laughter.]

Senator NELSON. Listen, you have never gotten over the——

Chairman LINCOLN. They are terrific.

Senator NELSON. You have never gotten over the Big Eight, so what is this deal about the Big Twelve—Big Six——

Senator ROBERTS. I never got over the Big Six, but never mind.

But I mean, are things better in the Big Ten? I know they were interested in Nebraska culture, and I just wondered how you incorporated that culture——

[Laughter.]

Senator NELSON. Our culture is very close to Michigan's culture.

[Laughter.]

Senator ROBERTS. I see.

Senator NELSON. They are big in agriculture.

Chairman LINCOLN. That is right.

Senator NELSON. What do you have? No, I'm just kidding——

[Laughter.]

Senator ROBERTS. Are you still going to speak to us in Iowa and Kansas and Kansas State?

Senator NELSON. Well, Iowa is in the Big Ten. I am sorry about——

Senator ROBERTS. Iowa State, pardon me.

Senator NELSON. Iowa State. Well, sure, we will still speak——

Senator ROBERTS. What you call the little sisters of the poor. Yes.

Senator NELSON. I have never really made any disparaging comments about Iowa——

[Laughter.]

Senator NELSON. It is Kansas——

Senator ROBERTS. In public conversation, that is true. Private, I do not know.

Senator NELSON. Well, first of all, Mr. Undersecretary, I am pleased to see in your opening remarks that you made mention of the Rural Micro-Enterprise Assistance Program. As you know, I worked with others to get that into the 2008 Farm Bill, with the assistance of Senator Lincoln and the support of Senator Stabenow. But programs like RMAP are crucial to rural America and small businesses which make up 90 percent of all rural business, as more than one million rural businesses have 20 or fewer employees. And small firms in the rural areas need capital to finance startup costs as well as expansion. The continued success of these entrepreneurs is essential to ensuring that rural communities survive. And I know that you share my frustration and the frustration of others around the table who—and how long it has taken to get the program implemented, and I appreciate the time and energy that you have personally dedicated towards that end, and I am glad to read that you anticipate announcing the initial awards for loans, grants, and technical assistance later this summer.

But despite the positive steps, I still do have some concerns about the Department's interim rule to implement RMAP, which I raised in a letter to Secretary Vilsack on June 22nd of this year. I am sure that has been shared with you, yes.

I believe that the interim final rule contains a number of requirements and limitations that are nowhere to be found in the authorizing statute which, taken together, could increase the cost of the program to end users, and would limit the availability of RMAP to smaller organizations, especially the interim final rule's higher interest rates, lower grant levels, and unauthorized limitations and matching requirements.

In the interest of time, I am going to skip some of the specifics and submit my letter that I sent to Secretary Vilsack for the record. But I would like to know if the Department is addressing the concerns that I have raised in implementing the final rule, formulating the final rule. Do you anticipate any challenges in resolving the issues with higher interest rates, lower grant levels, and unauthorized limitations and matching requirements? Do you believe it will have an impact on those who will be awarded by RMAP later this summer?

And I guess maybe the ultimate question is, when can we anticipate the final rule being published?

Mr. TONSAGER. Of course, we are in the comment period and we have received—or excuse me, we have closed the comment period,

I believe, and received significant comment from many parties, and yes, we will be addressing several of those comments that have been provided to us in looking for ways to make the program work as well as possible.

The date, I am not sure we have a timeframe on the exact publication date of the rule, so I am sorry I cannot be more concise——

Senator NELSON. Could we anticipate before the end of the summer?

Mr. TONSAGER. Do you have any idea?

Senator NELSON. Before the end of autumn? Before the end of winter?

Mr. TONSAGER. Before the end of the calendar year.

Senator NELSON. Before the end of the year. Well, I appreciate you working on it, and taking into consideration what we have raised, but it is so frustrating to enact laws and have the bureaucracy continue to take a longer period of time than I think any of us would have ever anticipated. I know when I was Governor we got the legislature to enact similar legislation in Nebraska and I know it did not take anywhere near as long to get it done then, back in those days, with the administration.

And I know people have seen my frustration with alphabet agencies. In the kindest way possible, I would like to say this: We have to make sure that the legislation is followed more to the letter than to the like of an agency. While I am not naive about the Executive Branch, having run an executive branch, I am very concerned when the alphabet agencies know better and know best and take that approach. No agency is the fourth branch of government, and consequently, adding these requirements, which were never intended in the legislation, is more than implementation. To me, it is less in the field of regulating than quasi-legislating. So, I hope that you will keep that in mind and not make this legislation that was passed in good faith something that begins to work against the very groups that we are trying to support.

I want to associate myself with the remarks of my colleague from Kansas when he said about having a coordinating agency as it relates to some of the environmental and the other limiting requirements that come along to help us. But in this case, there are no outside entities that we have to worry about, it is on the inside.

So, in the kindest way possible, please do not try to improve this legislation by adding all kinds of requirements that take away from the intent. And I hope that the bureaucracy does not develop what I consider the "we be" attitude: we be here when you come, we be here when you go. So, please, please, in the kindest way possible, find a way to move this forward and not change it dramatically from what we intended to have it be.

Mr. TONSAGER. Thank you, sir.

Senator LINCOLN. Thank you, Senator Nelson.

Senator STABENOW.

Senator STABENOW. Thank you, Madam Chair.

And first, thank you for holding the hearings, and we look forward to your leadership as we move forward into putting together the next Farm Bill. So, we have many challenges and many issues that we all share in common. I want to associate myself with Senator Thune's comments regarding biomass. I realize that is not all

under your jurisdiction, but it is very, very important that we have definitions—I know the Chair shares that, as well—that we have definitions that allow us to move forward and benefit from biomass energy opportunities.

I know, as well, that the Chair has spoken about the Biorefinery Assistance Program and the loan guarantee program. I want to expand on that by asking you some questions about a demonstration grant program, which was also put into the Farm Bills, and many of our biofuel companies believe that the demonstration grants would have a significant impact on the loan guarantee program itself, and on the economy as a whole as we pursue energy and oil independence, which we realize is so critical.

The demonstration grants would help startup companies, as well as maturing biofuels companies, get the funding they need to prove their technologies beyond the pilot scale, and then help them get ready for commercial scale opportunities through the loan guarantee program.

So, it is my understanding that the demonstration grant program has not been funded yet, and there have been concerns about the number of loan guarantees. And so, I am wondering if you would see the need for the demonstration grants, and how funding the demonstration grants might ultimately help the loan guarantee program and increase the number of applicants.

Mr. TONSAGER. We do have a clear understanding as we have talked to the numerous groups that have developed projects, and I guess the term is "Valley of Death," quite often, where they get to the point where they need some more money to continue to move forward on projects where we are limited currently to financing proven technologies that are ready to commercialize. So, we do have a gap in the period involved.

The funds we have, significant of course, but the scale of these plants are very large in a capital investment factor. So, we have thus far focused on the loan guarantee program for the financing part of this. Many of these plants could be hundreds of millions of dollars that we are dealing with in the capital costs and the financing side.

We do believe that the grant program has merit. I mean, it certainly—if we are to address that gap, there is some sense to that. So, it is a challenge for us on the resources in trying to use them to the extent we possibly can.

Senator STABENOW. But it is my understanding there have only been a few loan guarantees; is that correct?

Mr. TONSAGER. Yes, we have received 17 applications for loan guarantees; 10 of those, however, did not have lenders, which is the critical element in them. So, there were only 7 potential ones. We have done 2 and we have some more in the works.

Senator STABENOW. Okay. Let me talk about energy for a second, because the Rural Energy for America Program, the REAP program, I think is a very important step in the Farm Bill to focus on energy efficiency with farms and rural businesses, and I understand there have been some delays in issuing the funding notices, which can sometimes get in the way of producers' and small businesses' ability to apply for funding, and I know in Michigan we have been working hard to get the word out so that people would

be aware of deadlines and so on. But the feedback that I am getting is that deadlines are too short for some of the applicants who need lead time to prepare applications, and I am wondering, looking ahead to next year, what we can do to accelerate REAP's funding cycle and give producers more time to be able to plan and apply for the funding.

Mr. TONSAGER. There are challenges with timeframes, and there have been challenges with the implementation of the program. We believe strongly in the program; it certainly is an important tool, and we are pressing the staff to move forward as quickly as we can to get in place the final rules as well as to get a funding cycle that works for everybody.

Well, I would just encourage you to continue to press on that, because when we look at our national goals and needs in energy efficiency when we look at what we can do to support farmers, to support small businesses in rural areas, this is a very positive program put in place, and we need to make sure that it is working as it should and providing the kind of timelines and assistance that will allow people to really benefit from this.

Mr. TONSAGER. I would agree. Thank you.

Senator STABENOW. Thank you.

Chairman LINCOLN. Senator Gillibrand.

Senator GILLIBRAND. Thank you, Madam Chairwoman, for hosting this hearing. I really appreciate it. It is a very important issue for the State of New York, and I am very grateful for your leadership.

Thank you, Mr. Undersecretary, for your testimony.

What I would like to focus a little bit of time on is the biomass definition contained in the Energy Investment and Security Act of 2007 and the amount of confusion that it is creating because it does not really comport with the definition in the 2008 Farm Bill, and it is also creating— there is also confusion being created with regard to the EPA's definitions, as well.

And what I have heard from businesses all across New York is that there is real opportunity in my state to make the stewardship of our forests a very important component of energy independence, and because of these poorly thought out definitions, we are unable to really capture the full benefit of those investments.

I really want to associate my comments with some of those of Senator Thune, who also talked a little bit about this issue. So, I would like your thoughts on how we can clarify these definitions to ensure that we are getting the full benefit. I mean, some reports say that up to 90 percent of private forest lands in the U.S. are being foreclosed by these current definitions and we have national forests in our state, we have protected lands, and all of this forest needs to be stewarded, and we really need to make sure that we clear out dead wood. We need to make sure that wood that is not used in papermaking and other byproducts can also be used. There are so many opportunities for that woody biomass to be part of energy independence agenda.

Mr. TONSAGER. I would just say that we certainly are looking for the flexibility components. We want to go there—we believe, as you do, that there is opportunity, not just with bioenergy but with all kinds of things and we, in every circumstances, seek highest and

best use. If there is a highest and best use for the product, we want to go there to make sure the opportunity is the highest and best, and biofuels is certainly one of those.

My skill set on the definitional issues is limited, other than to say that I do believe in seeking the flexibility. We can be more responsive by going back and giving some written clarification on the subject, I think would be the best——

Senator GILLIBRAND. Well, I would be grateful to have the opportunity to work with you on that, because we really want to make sure this definition really does provide the opportunity for rural America to take advantage of these biomass opportunities that are real and really can make a huge difference in creating energy independence in this country.

And the second issue I want to address is, I do not know if the USDA is working with the Department of Energy, but I would urge you to do so, particularly because we have so many opportunities for energy production in New York State, but there is no way to be ready for backwards energy. So, for example, if we have methane digesters at dairy farms in New York, there is very little opportunity to put that energy back into the grid, and that is an opportunity that would make a revenue stream for our farmers, but it would also make our country far more energy independent. And so, what we need is a much more focused, collaborative effort between USDA and rural America and the Department of Energy to work on this electric grid and to really make those investments, and I would like your thoughts on that.

Mr. TONSAGER. I have the opportunity to serve as Co-Chair with Steven Koonin and the Undersecretary at the Department of Energy to co-chair the National Biomass Research and Development Board. We are meeting quarterly and we are developing and agenda to coordinate efforts on that subject and others, and I agree with, relative to the rural electric grid and how we continue to develop access for all kinds of sources relative to that.

So, yes, we are working with DOE. We are continuing to develop relationship with our—and we have a very proactive Biomass Research and Development Board, which is government-wide, includes several agencies.

Senator GILLIBRAND. Thank you, and thank you for your testimony.

Mr. TONSAGER. Thank you.

Senator GILLIBRAND. Thank you, Madam Chairman.

Chairman LINCOLN. Thank you, Senator Gillibrand.

Senator JOHANNS.

Senator JOHANNS. Thank you, Madam Chairman.

Thank you for being here.

Let me, if I might, focus on the baseline, if I could, relative to the Farm Bill, and maybe I better lay the focus on that just simply because there is a ways to go and a baseline, I am sure, is being developed, but as I look at the next Farm Bill and think about the funding that will be available, it seems to me that the baseline is going to be very, very constricted. In fact, the budget baseline for USDA, if I have my numbers right—for USDA energy program—suggests a decline from $1.9 billion for this Farm Bill to $500 million in the next Farm Bill.

On the House side, Chairman Peterson has indicated that he wants to at least work in an effort to have a no new funding baseline. In other words, I think what he is thinking about is corralling the baseline, figuring out what that is, and living within that baseline.

So, how do you have a biomass program, or any program relating to renewable energy, with a baseline that is going to be—at least projected to be a third of what it is today?

Mr. TONSAGER. I do not have the baseline information, so I cannot debate the relative amount of the baseline amount or discuss, excuse me, with you on that matter. One of the things that I am attempting to do as we go forward is to look how we work with capital markets in general to try and bring assurance to them, because we recognize that resources are going to be limited, and we recognize that bioenergy will be developed by the private sector. So, we are going to look for every opportunity we can as your program—at our programs, and look at how capital markets function and find the best way we possibly can to help access those markets with the resources that we are given with them when the time comes.

And so, but yes, you are right, it is going to be a very narrow amount of resources given to us.

Senator JOHANNS. Yes. Well, if you are trying to send a signal to capital markets that the world is going to be okay and their dollars should be invested here versus invested in some other area of the economy, would you not want to give them the certainty, then, of E15, for example? And now, we have had two delays on that.

So, how do you send a signal to the capital markets that gives them more security?

Mr. TONSAGER. We need to, on every front, look to try and build confidence in the potential of the market.

We had the airline industry in this past week who talked about—they need 20 billion gallons of jet fuel, and they want to get that from biological sources in the future.

The Department of the Navy is committed to getting to 50 percent usage of biologically related sources in the future. I believe we have to look closely at the access of the biofuels into the markets available directly to consumers, be it blender pumps, infrastructure, and so forth. We have to show that there is a growing effort to expand that market, to try and help build the belief with the investors and lenders that there is opportunity.

And so, I think we want to try and address every front that we can that sends a signal to the private sector that this is happening, that it is important, that there is economic opportunity. We will look at modeling different regions of the country. We are taking a regional approach on the biomass sources, because we think that some predominate and just look like the best opportunity in some regions, and we are going to continue to analyze to see if we can make the case with the private sector that that is the case.

Senator JOHANNS. Let me, if I might, focus on the Biomass Crop Assistance Program. It was added to the last Farm Bill. I think the CBO score for the entire program was $70 million over five years. USDA—again, if I have my numbers correctly—has already spent $500 million to implement it.

Tell us what is going on with that program, and why $70 million all of a sudden has morphed into $500 million to try to implement it.

Mr. TONSAGER. I cannot address it well. It is not part of my particular mission. I am aware of the program, understand how it is being used, and so forth, but I do not have information relative to the cost. If you like, we can certainly, as part of our response to the Committee, address that to you, but I cannot knowledgeably speak to it today.

Senator JOHANNS. That would be appreciated.

Mr. TONSAGER. Yes, sir.

Senator JOHANNS. Thank you.

Thank you, Madam Chairman.

Chairman LINCOLN. Thank you. And thank you, Undersecretary Tonsager. We appreciate your hard work and dedication and are grateful to you for that, and I do think that, under rural development, we hold the key of really jumpstarting the issue of renewable energies and getting our Nation off of our dependence on foreign oil.

So, we look forward to working with you.

Mr. TONSAGER. Thank you, ma'am, and thank you, Committee. We appreciate the chance to be here.

Chairman LINCOLN. Absolutely. We look forward to working with you.

I would like to ask the witnesses on the second panel to come forward and be seated.

The panel includes General Wesley Clark, Co-Chair of Growth Energy, Dave Tenny, President of the National Association of Forest Owners, and Eric Zuber, co-owner of Zuber Farms in New York.

Gentlemen, your written testimonies will be submitted for the record, so we definitely want to ask that you keep your remarks to five minutes.

In the interest of time, I am going to go ahead and introduce our witnesses as they are taking their seats.

It is my pleasure to introduce our next witnesses. A fellow Arkansan and a good friend of mine, General Wesley Clark. General Clark serves as Co-Chairman for Growth Energy, which is a coalition that represents a broad range of energy producers. General Clark graduated first in his class at West Point and retired as a four-star general after 38 years in the U.S. Army.

General Clark commanded at the battalion, brigade, and division levels, and served in a number of significant staff positions. He finished his career as NATO Commander and Supreme Allied Commander in Europe where he led NATO forces to victory in Operation Allied Force.

At the conclusion—General Clark, I think—do we want to go ahead—we will let you make your opening statements, and then I will introduce the others.

STATEMENT OF GENERAL WESLEY CLARK, CO-CHAIR, GROWTH ENERGY

General CLARK. Madam Chair and members of the Committee, thank you very much for—[off microphone]—and I did not come

from a farm sate—from a farm family, and I did not understand, really, the Midwest farming culture.

I signed onto this effort to represent Growth Energy not only though because I believe in America's agricultural community and rural development, but because energy independence is just an absolutely critical issue for America at this time.

Now, we have been talking about it for 35 years since I was a Captain teaching economics at West Point, but with oil at $75 a barrel, as you mentioned, it is about—it is over $300 billion a year leaking out of this economy; it is a huge amount of money. It is more than we are paying for Iraq and Afghanistan. It is almost as much as we are paying in interest on our national debt. If we could keep that money in the American economy, we would be creating jobs and building education and homes and communities with that money, and instead, it is flowing out of the country, and particularly at a time when we have a high unemployment rate and we are desperate for job creation, I think we have to take urgent action on this issue of energy independence.

And the truth is that we are not going to solve it with a hydrogen economy in the near-term. As much as I love electric automobiles and wind and solar, we are not going to get there with electric automobiles. There are 250 million automobiles on the road, and almost none of them are electric today, and Americans cannot afford to rush out and buy electric automobiles in a year or two, even if they were available, which they are not.

The real way we address this issue is with liquid fuels, and today we do have a liquid fuel alternative to imported oil, and that alternative is ethanol, and I am here representing Growth Energy, and we would like to just mention a couple of things about where we are going, because we think this is a critical opportunity for us that we must establish.

This $300 billion a year, if the American people just understood, it is $1,000 per man, woman, and child in America every year, just so we can fill up our tanks with imported oil. If a country said to us we had to pay that as tribute to maintain our freedom, we would go to war with them, yet we willingly pay this at the pump every time we fill up our gas, and we have a choice. We do not have to do this.

The only thing that is really standing between us and keeping this $300 billion in the American economy is the resolve to fix the problem. So, at Growth Energy, we hope

the United States Congress will establish a national energy policy that creates jobs in the United States, improves the environment, strengthens our national security, and we hope this Committee will take the lead, because this Committee is at the heart of one of the great technological innovations of the 21st century, and that is biofuels. That is America's own innovation and we are leading it with corn-based ethanol. We created it here in America. The feedstocks are grown on our Nation's farms, the biorefineries are located in rural America. They are creating jobs that cannot be outsourced.

I was in Copenhagen for the Climate Summit in December and people are coming up to me from all over the world, saying, how can we have ethanol. The Ambassador from Pakistan here in

Washington said, General Clark, we want you to bring corn-based ethanol to Pakistan. I said, but tell me why, he said, because it creates value in our land and it saves us foreign exchange that we need for economic development.

We have this incredible jewel of innovation in America's agricultural community and we have to take advantage of it and use it and we are calling on this Committee to take the lead in doing so.

Now, right, ethanol is about 10 percent of Nation's gasoline consumption, but we could do a whole lot more, and I am not even talking cellulosic, here. Cellulosic is down the road, we will get there, but just with corn-based ethanol, every year our farmers are producing 2–3 percent more corn on the same acreage, and every year our ethanol refineries are getting more efficient. They are reducing cost, they are raising the net energy in ethanol, and what stands in the way is not supply. What is standing in our way is basically barriers to consumption.

We are currently facing the so-called "blend wall," which is the amount of ethanol that federal regulations say can be blended with gasoline, and as you know this is capped at 10 percent; it is the amount that was set in 1978. So, at Growth Energy, we filed a waiver with EPA in March of 2009 to raise the blend wall to allow up to 15 percent ethanol in a gallon of gasoline, and the waiver has yet to be acted on. EPA is awaiting tests from DOE. They were first promised they would be complete and we would have a decision in June, then they were delayed until August. Now, we are waiting until the end of the year.

And I understand the need for testing. I sure understand the need for automobile makers to be concerned about liabilities and so forth, but look, if we can get this waiver approved, we will create 136,000 new permanent jobs, maybe a quarter of a million construction jobs. We will reduce our dependence on foreign oil by 7 billion gallons a year, and not only that, we will spark a wave of development and investment in rural America. It is a big step forward, and we need to take it and raise this blend wall. We hope there will be no more delays.

As the Senate prepares to debate energy legislation, we believe it is important to address a couple of other barriers to ethanol. The biggest challenge we face is having access to open market. Actually, the cost of production of ethanol is less than the cost of production of a gallon of gasoline right now, and we believe that ethanol can compete in a free market without government assistance if, but only if, the infrastructure barriers are removed.

Last week, at Growth Energy, we rolled out the Fueling Freedom Plan that urges Congress to redirect some of the government assistance into building out the infrastructure, mandating flex-fuel vehicles' production and creating incentives to install blender pumps. If we had 120 million flex-fuel vehicles on the road and a couple hundred thousand blender pumps nationwide so consumers could decide how much ethanol they want to put in their vehicle, ethanol would compete with oil, and we would save a substantial amount of that $300 billion. We are not advocating the elimination of government assistance right now; what we are saying is to redirect some of it to the infrastructure so that we can have access to

the market where we can compete, once that infrastructure is in place, without the government assistance.

I know there are vested interests out there continuing to call for the elimination of any assistance to ethanol, but I think we have to bear in mind—I know this Committee will—that the amount invested by U.S. taxpayers has been a great investment, $5-, $6 billion a year has been invested. It has reduced government farm program costs by an equivalent amount. It has created almost 500,000 jobs. It has reduced our dependence on foreign oil and improved our environment and helped create a $66 billion industry and lead a technological innovation that will spread worldwide and change global dynamics if we move through this. So, but we have to move forward in America.

Now, President Eisenhower, he proposed an interstate highway system to give Americans freedom to travel our great Nation. I think this Committee should take the lead in giving Americans the freedom to choose the fuel to travel on those highways.

With fossil fuels getting dirtier and costlier and riskier to extract, now is the time to expand the production and consumption of clean, renewable fuels like ethanol that are getting increasingly efficient and easier to produce.

Congress set an aggressive goal when it passed the 2007 Energy Bill, but unfortunately that energy bill contained two destructive policies against agriculture and ethanol, and the first was a reference to indirect land use change which has now been interpreted to be international indirect land use change. It is a controversial theory. It uses speculative models and incorrect assumptions and is basically an attempt to blame American farmers for deforestation in foreign countries such as Brazil. It is a dangerous theory, it is incorrect, and if it is allowed to stand in statute, it will ultimately take down every sector of the American economy.

If you can apply this theory to agriculture, then there is nothing to prevent the same theory from being applied to construction, residential homes, hospitals, highways, high-speed transit, virtually anything that uses land and impacts on our economy. So, I think that we need to ask and seek the removal of this language from the legislation.

And the second flawed policy within this legislation is the definition of an advanced biofuel. An advanced biofuel ought to be, one would think, something that gives you a substantial measure of reduction in greenhouse gas emissions from conventional fuel like gasoline, but the definition specifically excluded corn starch ethanol, despite the ability of corn starch ethanol to meet and exceed these greenhouse gas thresholds, and the continuous improvements in the production processes. We refer to the exclusions in the legislation as the corn discrimination clause, because it has absolutely nothing to do with the efficiency of production of ethanol or the environmental improvement, it is simply the discrimination against a particular feedstock.

So, Growth energy strongly supports the implementation and full funding of the energy title of the Farm Bill. The Committee should be commended for its work in establishing a title that recognized the ability of the agricultural community to contribute and be part of our Nation's energy solution.

So, Madam Chairman, if I could just have a second to summarize, we are on the verge of a technological breakthrough that could change international dynamics in the 21st century. The 20th century has been all about petroleum: We fuel our militaries with it; we fight for it; we deploy our forces to protect; it is all about the 20th century. This century could be about biofuels, if we take the lead and use the technological edge that we have right now. And the leading biofuel that is available right now and that we should use without further delay is ethanol. Increased uses of ethanol reduces our dependence on foreign oil, strengthens national security, creates jobs, revitalizes communities, improves our environment. It is our innovation and gift to the world. Other nations want it, we should take full advantage of what we have here at home.

Again, Madam Chairman, members of the Committee, I appreciate the invitation to come before your Committee this morning. Thank you.

[The prepared statement of General Clark can be found on page 62 in the appendix.]

Chairman LINCOLN. Thank you, General Clark. And you are right, the American people are looking for immediacy in terms of finding renewable fuel. So, we thank you for being here.

We will hold our questions until the panel has finished all opening remarks.

Dave Tenny is President and CEO of the National Alliance of Forest Owners, which represents private forest owners, managers, and organizations dedicated to protecting and enhancing the economic and environmental values of privately owned forests across the country. NAFO members manage more than 75 million acres of forest land in 47 states. Prior to entering the private forestry arena, Dave served as Deputy Undersecretary for Natural Resources and Environment at USDA, and is a senior staff of the House Agriculture Committee.

Thank you, Mr. Tenny.

STATEMENT OF DAVE TENNY, PRESIDENT, NATIONAL ALLIANCE OF FOREST OWNERS

Mr. TENNY. As you pointed out, NAFO does represent a lot of forest land across the country, including three million acres or so in Arkansas and three million acres or so in Georgia, and we play no favorites.

Our forests are part of the economic backbone of the forested states in our country, the 29 most forested states in our country. Our private forest lands are supporting 2.5 million jobs and $87 billion in payroll, and contribute $102 billion to the gross domestic product in these states. It is a very significant contributor to rural economies.

Our members are forest leaders. We recognize the fundamental role that sustainably managed forests play in development of renewable domestic sources of energy', and we are positioned to help provide the energy resources we need as we move forward in this century.

As General Clark pointed out, we reached a point of decision in our country. We are trying to decide whether we are going to fully embrace our renewable energy potential or not. If we are going to

fully embrace our renewable energy potential, then it has to be reflected in our policy. That means that our policy is going to try to reach the potential of all the various renewable energy resources, and the potential of the various regions of the country that are dependent upon those resources and they can provide them.

Working for us, the forests that NAFO represents are positioned to help. We can provide up to one-third of the renewable energy that is being contemplated in the proposals that are currently pending before Congress in the Energy Bill, and they are pending before this body, and we can also make a significant contribution to meeting the objectives of the renewable fuel standard and the Energy Independence and Security Act of 2007. But in order to make the right decisions, working forests need the right signals from policymakers in the federal government.

Now, the energy title to the Farm Bill has sent generally positive signals to forest owners, research and development on breakthrough technologies, the effort to provide loan guarantees for project development, investments in the supply chain that help support renewable energy are all positive signals. These programs are not administered perfectly, and there is room for improvement, and we all know that, too, but they have sent a very positive signal and are moving us in a positive direction.

Just as importantly, the Farm Bill has helped establish a level playing field among the various sources of renewable energy. It provides an inclusive definition of qualifying biomass, for example, that does not discriminate among the various sources of biomass energy, and this sends a clear signal as well to forest owners that their contributions and their investments are both welcome and encouraged in the policy. But notwithstanding these positive signals that this Committee has helped provide through the Farm Bill, other policies are sending a very different signal, a chilling signal that is undoing the forward momentum that we have hoped to experience. I think it has been mentioned that the biomass definition in the Energy Independence and Security Act, the RFS definition, constrains biomass utilization on up to 90 percent of the private forests owned and managed in the United States. This has softened investments in biofuels from forests at a time when those investments are needed in order to commercialize breakthrough technologies. It has also sent a very strong message to forest owners that the policy of the renewable fuel standard seems to be more about land use regulation than it is about renewable energy production.

Unless Congress acts to replace this definition, and others like it that are currently pending in policies being considered by Congress with a more inclusive definition such as we have seen in the Farm Bill, forest biomass will be left behind. Our national policy will not achieve its goals because we need our forests to do that.

Similarly, there is another signal that is being sent to forest owners by the EPA presently. The EPA's sudden shift in the treatment of carbon emissions from biomass energy and the PSD tailoring role is a significant contributor to the confusion that is existing in the marketplace today because it is now treating carbon emissions from biomass energy like it does carbon emissions from fossil fuels. EPA seems to have some ambivalence about how to account for car-

bon from biomass energy that conflicts with some of the more well established international conventions, the Greenhouse Inventory Data and EPA's own statements that recognize that biomass energy in countries like the U.S. where our forests are a net carbon sink do not contribute to the net amount of carbon in the atmosphere, when those forests are used for whatever purpose, including energy.

Now, NAFO plans to work with this Committee. Chairman and Ranking Member, we appreciate the work that you have done in opposing the position that the EPA has taken in the tailoring role. We very much appreciate the work of all of you here on the Committee. Because of your intervention, the EPA is now seeking public comment on how to account for carbon emissions from biomass combustion, but this is really just a modest first step, and it may not clarify the question before that rule becomes effective in 2011. And as a result, the investment in biomass energy is stagnating.

Current biomass energy producers, forest owners, manufacturing, and others who have been involved in this business for a very long time are left wondering, are we part of the solution—are we part of our renewable energy future—or are we going to be cast as part of the perceived problem—are we going to be treated as fossil fuels?

We appreciate the commitment that Secretary Vilsack has made concerning the role that USDA will play in the review of the tailoring role, and we look forward to full USDA participation in engagement in that effort so that we can establish in the record once and for all that biomass energy from forests is carbon-neutral. It does not have a net carbon positive effect on the atmosphere under the Clean Air Act so long as our carbon stocks, our forests, continue to grow and increase the carbon in our country.

In conclusion, I will end where I started. I thank General Clark for his service and agree with him that we are at a precipice. We are at a point where we are trying to decide, are we going to embrace our future in renewable energy or are we not? NAFO urges this Committee to take the initiative, re-take it—you have got the policy of the Farm Bill to do that—and to help correct some of the policies that are chilling investment and putting forest biomass on the backburner. We need your help, we look forward to working with you, and we think that we can come up with a policy that works for our forests and that works for our Nation, as well.

Thank you very much.

[The prepared statement of Mr. Tenny can be found on page 77 in the appendix.]

Chairman LINCOLN. Thank you, Mr. Tenny, and thank you so much for NAFO's work with the Committee. We appreciate working with you and look forward to continuing that relationship.

As a point of personal privilege, I am going to take a few minutes before I introduce Mr. Zuber and apologize to the Committee. I have got to excuse myself. Before, there was a—the scheduling of the bill signing with the President came after we scheduled this hearing, and in order to make sure that the Ag Committee is well represented for the good work that we did in that Wall Street reform bill, I am going to be over there, and I have to say, a special thanks to Mayor JoAnne Bush as well as Dennis Sternberg, be-

cause the only thing that would encourage me to miss their testimony is actually the request of the President that I be over there.

So, I am grateful to them, both great Arkansans in terms of their leadership and what they have taught me. Mayor has done a tremendous job in Lake Village and Dennis has been a longtime friend and someone I have learned an awful lot from.

Glenn English, as well, I apologize that I will miss your testimony. Glenn and I served together in the House and we are grateful for all of that.

And again, want to add a special thanks to General Clark for being here. I do not think we have ever had a four-star general before the Ag Committee, Senator Chambliss, and we are very proud to have you here today and, again, grateful for your service to the country.

But please, now that your endeavors here are accentuating the things that we in Agriculture want to see happen in this country, we look forward to working with you.

So, I thank all of you all and I appreciate my colleague, Senator Klobuchar who will continue the hearing on behalf of the Committee. But again, thanks to everybody that has participated.

And now, we will turn to our last witness, Mr. Zuber. He and his brother, Kim own and run Zuber Farms in Byron, New York, near Rochester. This dairy farm has been in their family since 1937, and includes 1,750 cows and 3,000 acres of crops. Mr. Zuber has served on the Upstate Niagara Board for 11 years and is currently serving as Vice President of that Board.

He also serves on the Board of OATKA; is that correct?

Mr. ZUBER. I believe that is Northeast Council of Cooperatives is what it should say.

Chairman LINCOLN. Oh, that is what it is. Okay—of the Milk Products Cooperative.

Mr. ZUBER. [Off microphone.]

Chairman LINCOLN. Okay.

Mr. ZUBER. Another board of directors which processes 60 million pounds of milk a month.

Chairman LINCOLN. There you go. We just want to make sure we get all of those——

Mr. ZUBER. Yes.

Chairman LINCOLN. All that CV on there.

Mr. ZUBER. Also, if I may add, is been—in the last ten years—been voted five times as making the world's best better.

Chairman LINCOLN. Well, there you go, that is good to know.

He is also President of the——

Senator KLOBUCHAR. Better than Minnesota?

Mr. ZUBER. Better than Minnesota.

[Laughter.]

Mr. ZUBER. I do not mean to hurt—I do not want to offend anybody here.

Chairman LINCOLN. Watch out, she is getting ready to take over the Chair.

He is also the President of the Northeast Cooperative Council, and we are grateful for his input today—Mr. Zuber, for your testimony.

STATEMENT OF ERIC ZUBER, DAIRY PRODUCER

Mr. ZUBER. Thank you.

It is an honor and a privilege to be here today to discuss the opportunities that USDA energy programs have given my family farm in the development and the operation of a methane digester.

I would like to thank Senator Gillibrand for her efforts in addressing the milk price crisis that all dairy farmers have endured in the last 18 months.

I was present in a hearing in Batavia in August of 2009 that Senator Gillibrand put together to discuss the milk price crisis. The milk price is rebounding slowly; it has been a long road. When it first started, we thought this was going to last six months, and we are just starting now, maybe, to crawl back so that we can cash flow our businesses.

The value of New York agriculture products in 2009 was about 4.4 billion. The dairy industry is the single largest sector. Even with the depressed prices, milk sales were over 2.3 billion, New York remains the third largest dairy state in the United States.

The quick history of our farm really began in 1937 when my dad was 13 years old and his father passed away. He had nine cows in an old barn 12 miles from what is now the Epicenter of Rochester, New York.

Since then, we have moved the milking facility twice to a more appropriate location. Today, we have 1,750 milking cows, 1,500 head of young stock, and a crop of about 3,000 acres. We have 26 employees that produce 36 million pounds of milk a year, and inject almost $6 million into our local town's economy.

We became interested in building a methane digester because of the need for animal bedding. We had been buying sawdust for our sawdust needs and that have been growing at over $200,000 a year.

When heating prices would go up, the sawdust supplies would put their sawdust to fire logs, and the sawdust became expensive, scarce, or even unavailable.

In 2007, Mark Moser, of RCM International, a methane digester designer contacted me about the possibility of building a digester. NYSERDA, New York State Energy Agency had come up with a grant program that made digesters attractive for New York State. Mark Moser's people at RCM started running some proposals and I ran some proformas on what would make a viable project.

It became apparent that there was not enough return on investment without added funding. When USDA announced their REAP, Rural Energy of America Program, Farm Bill Section 907, which provides competitive grants for up to 25 percent of the total cost of a renewable energy product, we realized the additional grant funding could make a viable project.

Angela McEliece of RCM did most of the grant writing, and we supplied the necessary information and necessary funds of $413,000 was secured.

The NYSERDA grant was mostly a production base, and we had to acquire a bridge loan through farm credit to cover the first 3 years of production. By the time the grants were secured and approval of farm credit came through in early 2009, milk prices had hit us pretty hard. It became questionable whether to do the

project under these financial circumstances. After months of consultation and our long-term commitment to dairy business in early spring 2009, we decided to go ahead with the project. There were contractors looking for work and we thought there might be some low-cost opportunities in this construction environment.

Tom Hauryski and Titus Falkenburg of USDA Rural Development came out and we signed the paperwork. Titus Falkenburg, Rural Development's state engineer, was our point person, and we consulted and sent monthly reports and expense statements. We broke ground in April 2009 and reimbursement of 25 percent of the project went extremely well. After monthly expenses were submitted, we would get reimbursed in two to three weeks.

When we started pouring concrete, Titus would come out and make visual inspections in a timely manner. As the rest of the project itself felt—we felt—crucial to keep it on schedule. Our goal was to start generating methane before the weather got extremely cold. It would be necessary to heat 1.5 million gallons of cow manure to 100 degrees Fahrenheit, we felt we had to get it there before the winter months, because if we did not get it done, we would have to delay until spring.

The most challenging part of the project by far was the approval of the interconnect agreement with National Grid, our local electric company. There was a conflict in the interpretation of net metering law with New York that National Grid—the electricity—RCM, the subcontractor that was building the engine, machinery, and generator—the company who supplied the electric generator. New York's net metering law, until very recently, was capped at 500 kilowatts. They recently raised that to a 1000 kilowatts, but I think that is besides the point, because the infrastructure is not capable of taking that much power back through it, anyway.

The machinery originally was supplied—Martin Machinery originally supplied the gas engine that was only capable of putting out 450 kilowatts, but putting a bigger generator on with heavier windings would add longevity and more stable— make the generator more stable.

This generator was capable of putting out 570 kilowatts, which was above the net metering law, even though it did not have the horsepower to do so, NYSEG, another utility in New York State was allowing this generator to be used in this configuration, but National Grids was insistent that we downsize the generator, which we eventually did, to 380 kilowatts. We picked this size because it was the next lower size available to put on. As long as we were within that metering law, the utility company would have to foot the bill for the upgrades on the line to producing the power and upgrades were roughly half-a-million dollars. We began producing power 12/27/09. At the same time, we began separating our solids and making our animal bedding.

We had one screw separator and we soon learned that we had to put another one; so, now, today, we are running two.

Now that the digester is operating at a steady state, we have applied for funding from another 2008 Farm Bill Title IX program, Section 9005, payments for the producers of advanced biofuels. Any payments we receive in this program will help us in the capital and operating costs of the generator and the digester.

Looking back on the project, where we are now, I would like to make the final summations. First, there seems to be a lot of gas in the cow manure. There is enough gas to generate twice the power to run our farm. One of the biggest obstacles is scrubbing the gas. The process makes hydrogen sulfide which needs to be taken out to extend the life of the engine and reduce the operating cost. Technology for doing so is in its infancy and needs to be further developed. There is a definite odor reduction in the manure. A few weeks ago we harvested a field—a 90-acre field right behind the campgrounds and we were able to spread three-quarters of a million gallons on that and my phone never rang once. Without it, it would not have worked.

We are getting enough heat off the engine to supply all the heat for the milk house and energy. And also, in the wintertime, we can heat two houses.

Lastly, we still to have some issues with the National Grid. At certain times, when we get over 320 kilowatts we produce and the demand is low on the line it appears we are driving up voltage too high on the grid. Although we are well below the 500-kilowatt level, the line upgrades apparently are not yet sufficient. I see a real problem is that the grid never was designed to take the power backwards. The systems in rural America are basically old. There needs to be infrastructure investment of this type if this technology is to become commonplace.

I think, in the long run, if it is possible to purify the gas, it would be more efficient to put the gas in the pipeline rather than generate power right at the farm. There needs to be some studies done to determine where the biomass is, and the most efficient way to get it back to the end user. If on-farm electric generators are going to be successful, you will need to find a way to get incentives to the utility companies to make improvements to accept this power. In all, we need to continue to learn about anaerobic digesters. We are doing the things that we set out to do, and the deciding factor of how successful it will be is what our operating and maintenance costs will be going forward.

With that, I would like to thank you again for this opportunity. One other point I would like to make real quickly is, in Wyoming County, the county just south of me, the cows outnumber the people three-to-one, and we can make the power—we got the gas there, but we need to get it to where you can use it, and I think that is the most important thing I would like to set forth and what I had to say today.

Thank you.

[The prepared statement of Mr. Zuber can be found on page 109 in the appendix.]

Senator KLOBUCHAR. [Presiding.] Well, very good, and thank you for that real world example of what is going on so that we can make some good decisions here.

I am going to start with Senator Chambliss.

Senator CHAMBLISS. Thank you, there, Madam Chair. You handle that gavel well. You are a natural.

Senator KLOBUCHAR. Oh, thank you. I appreciate that.

Senator CHAMBLISS. General Clark——

Senator KLOBUCHAR. But we do have the best butter.

[Laughter.]

Senator CHAMBLISS. General Clark, you talked about the proposal that our group rolled out recently to phase out the blenders credit, and I assume you are addressing in some way the tariff on ethanol coming into the country—you may or may not. I will ask you to comment on that in your answer, though.

But the ethanol manufacturers in my state are just adamant that they need to have this blenders credit. I hear what you are saying about, the phase-out has got to be coupled with, I assume, other tax credits or something for manufacturing and insulation of infrastructure. So, I would like for you to elaborate on it a little bit, because either way we go, this is going to expensive. CBO has said that an extension of the blenders credit will have a cost of about $70 billion, almost that number, over 10 years. So, that is a lot of money to have to come up with, obviously, and it is going to be a real fight, whichever direction we go in.

But I want you to expand on your proposal a little bit more. What timeframe are you talking about? What specific kinds of credits are you looking at recommending?

General CLARK. Well, thanks, Senator, and I want to say—I think you were out of the room when I made my opening statement, but I wanted to thank you also for the advice and friendship you gave me when I was in uniform. I am very grateful for that.

As far as the proposal is concerned, we believe that we should have the ethanol tax—the blenders tax credit—but it needs to be redirected over time so it does not just go to the blenders; it should be going to round out the infrastructure so that Americans can buy the ethanol that we are producing.

In other words, what we have done over 30 years is we have incentivized people to blend ethanol into gasoline, and that tax credit actually is—right now, a lot of it is going to the consumers in the form of reduced price of gasoline. It is not going to the ethanol producer and, in some cases, not even staying with the blender—but it actually goes to the blender. What we are saying is, ethanol is increasingly efficient, it is more competitive with gasoline, its lower cost and production. Now, it is time to think about, as you look at that 10-year RAMP out there, taking some of that billion dollars—$7 billion a year and putting it into building out the infrastructure. The pace of doing that is really up to the Administration and to the United States Congress. We are just saying that, in all of the struggle over, where do you come up with the $70 billion. And it is going to be a fight, and we have heard many other proposals.

What our proposal is that we think about the end state we want to reach. Ethanol is increasingly competitive. It is going to—it needs to be increasingly widely used. We need to be offering E85. We need to be telling manufacturers to produce flex-fuel vehicles so that we can save some of that $300 billion a year we are spending on foreign oil. But to do that, we have got to get the infrastructure in place to be able to use the ethanol we produce. So, it is a concept, not a rigid proposal with respect to timing. We just wanted to enter the dialogue and

offer that concept to the United States Congress and ask you to consider feeding that infrastructure investment in as part of the revenue stream.

As far as the tariff on imported ethanol, we are strongly in favor of keeping that tariff in place. It is very important to do so. There is absolutely no reason for the United States to trade dependence on foreign oil in place of dependence on foreign-produced ethanol. This is about what we can do for our own country and our own economy and we should be proud of it and should not be embarrassed by it or apologetic about it. So, we are in favor of keeping that tariff in place, Senator.

Senator CHAMBLISS. Okay.

Mr. Tenny, some have argued that wood should not be used as a feedstock for energy, as the trees would be harvested instead of remaining in the ground for absorption of carbon or that the biomass boom might result in the wholesale conversion of working forests into plantations of short-rotation woody crops, the exclusive purpose of energy production.

Dave, what is your reaction to that kind of statement.

Mr. TENNY. Well, if I recall, we had a housing boom in our country, and that housing boom helped support probably more than two-and-a-half times the population today than we had when that boom started in the 1950s, and as a result of that boom, we have more trees in the ground today than we have ever had—50 percent more, in fact.

I think that the important point is that there is a fundamental relationship between markets and forests that cannot be lost in the debate. Markets are good for forests. If we are concerned about our forests—and we should be concerned about maintaining the markets so that we can maintain the forests over the long-term, and it is important to note that creating a plantation of intensively managed forests is not a cheap proposition. It requires a great deal of investment and that investment is probably not going to return for 40 to 80 years down the road. Biomass is a low-value product. It does not figure that an investment of the magnitude that you need to make to produce an intensively managed forest is going to pencil out if what you are going to get in return is the lowest value product in the value stream.

So, what more likely would occur is that we would see an opportunity to take some of the marginal land that is currently not in forest, put it in forest, or we will become more productive in the way we manage our forests today. We can grow more trees. We can grow more trees in all the forests if the market signals are there. And what we have learned, if anything, from our marketing experience in the past 100 years is that, if there is a market, the supply will respond. And at the end of the day, there is plenty of material. There is plenty of feedstock, there is plenty of raw material to go around. That has been our experience up to this point and we do not expect that to change.

Senator CHAMBLISS. Great. Thank you.

Senator KLOBUCHAR. Thank you very much, Senator Chambliss.

Senator Thune from the South Dakota, which is very devoted to biofuels, like my state.

Senator THUNE. Yes, indeed, Madam Chair, and we look forward to working with you to promote even greater use of biofuels, and I appreciate the testimony of our panelists this morning and some of your thoughts about how we do that.

Mr. Tenny, you mentioned in your testimony, but I want you to, if you could restate for this Committee, how much of our Nation's private forest lands are off-limits for energy production under the current definition of renewable biomass.

Mr. TENNY. Yes. In the Energy Independence and Security Act, the effort was attempted to address a concern, the concern that Senator Chambliss described that we would somehow convert a great deal of our forests from a more natural state, or a more naturally regenerative, to a more intensively managed. And what happened in that definition was, in the attempt to regulate the management of the land, we ended up foreclosing the use of the land, and federal forests, as you know, were virtually excluded from the definition, which takes a very important piece of the entire value chain off the table, and then, with respect to private lands, there was a very constrained definition that focused on the most intensively managed forests to the exclusion of the forests that are not as intensively managed, which are also a vast resource that can be used in bioenergy. And because of the complexities and the costs of all the challenge that EPA is now working with to implement that policy, much of the material that would be available on those naturally regenerating forests would not be available for the program.

Senator THUNE. Would replacing that definition with the definition of the 2008 Farm Bill result in increased renewable energy production?

Mr. TENNY. I think, without question, it would. We are talking about a resource that is plentiful, that, in regions of the country where wind, solar, and other types of renewable energy resources are not as plentiful, it will be the baseload for producing renewable energy.

And if given the opportunity, as I mentioned before, it will respond to the market signals. We will have more forests and we will continue to manage them sustainably as we have for the last 100 years if we have the right signals, and we will be in a position to really make the contribution that I think Congress and the public is looking for.

Senator THUNE. And you do not think that would have any adverse impact on forest health?

Mr. TENNY. It would help forest health. If you consider what happens when we manage our forests today, the return on investment goes into good productive forest health management. Without that return on investment, then there is no opportunity to reinvest in the land, and that is what we are facing today in the down marketplace.

Senator THUNE. Do you think that we can get to the numbers that the RFS calls for without an RFS that does not include woody biomass?

Mr. TENNY. I think it would be difficult. The technology for converting woody biomass to the next generation biofuels is still working through the process of moving from bench scale to production

scale. Those investments are looking for the signals. If the signal in the policy is, we are not really sure whether we want to use this resource to produce biofuels, then the markets are going to respond.

If the signal is the opposite, that we do think that this a fundamental part of the policy, then the markets will respond, and we want the markets to respond, and we think they will if given the right signal.

Senator THUNE. General Clark, what impact is the blend wall having on the ethanol industry today?

General CLARK. Well, basically, we are at the blend wall today. So, what we are doing is we are forcing the marginal cost producers out of the market, we have ended the opportunity to invest in the market, and we are stifling forward momentum in the industry.

So, it is an urgent matter for taking the industry forward to remove that blend wall.

Senator THUNE. And so—but I mean, your view is that it is having a chilling impact on investment.

General CLARK. And has had, because this started about two years ago when investors on Wall Street—I am also an investment banker, so we were looking at investments in our firm and bringing money into the ethanol industry, and it was an early—late in 2007 when we realized that there was enough investment in the ethanol industry to meet the E10 opportunity that was present, and that is when American money started flowing to Brazilian ethanol, and they thought, well, if we cannot invest in the United States, let's invest it in Brazil and then try to bring it back in to the United States through the backdoor and undercut the American investments.

So, we have actually—for two years, we have deflected investments in the American ethanol industry because of that blend wall. We have to have a five-year horizon out there, and that is why it is important that it be E15, not something less, and it would be accompanied by a far—more far-reaching commitment to ethanol as a fuel.

Senator THUNE. And my guess is that, with—we have talked a lot about advanced biofuels and cellulosic ethanol, it becomes that much more difficult to get investment in those types of technologies if we do not have this blend wall increased today. I mean, obviously, the—those we are developing——

General CLARK. That is exactly right, Senator, because it is going to be up to corn-based ethanol to open the way for the rest of the cellulosic ethanol to come in. It is partly a matter of scale and it is partly a matter of infrastructure, and I was just—we were just mentioning the blenders tax credit and the importance of putting some of that money into flex-fuel vehicles, requirements in blender pumps.

And Senator Klobuchar has introduced a bill that would help us with a lot of this infrastructure investment, including a loan guarantee for an ethanol pipeline, but all of this is required if we are going to move into cellulosic. So, rather than simply capping off corn and saying, that is enough of corn, let the marketplace—let

innovation take place, but we have to work on the demand side. The supply side will take care of itself if there is demand there.

Senator THUNE. How many blender pumps do you think are necessary to create a true market for ethanol?

General CLARK. Somewhere between 50-and 200,000—50,000 and 200,000.

Senator THUNE. Okay.

My time is up. Thank you, Madam Chair.

Senator KLOBUCHAR. All right.

Thank you very much. Thank you, all of you. I think we need to do a lot more work in this area. We had a good, strong start. And today, nearly 500,000 people, as you know, are working in the biofuels industry, and countless more are building and installing and maintaining wind turbines and solar panels across rural America, and America's farmers, including those in our three states of Minnesota and Georgia and South Dakota are literally growing and harvesting their own energy from the sun, the water, and the soil, and they are helping to reduce our dependence on foreign oil, which I really appreciate your involvement in this, General Clark, to make that point so succinctly that this is a national security as well.

And I think it is incredibly important that we get this blend wall increased, and I thank my colleagues for their leadership on this. We just cannot keep going like this when we know that there is this opportunity out there for our country. It was not a biofuel plant that exploded in the middle of a corn field, and it was not a biofuel plant that is involved in a bunch of jobs that are going overseas. The biofuel plants are actually employing people right in our country.

And I just wanted to note that, as we look at some of these subsidy issues, General Clark, that I know you were asked about earlier, over the last few decades, more than $360 billion worth of subsidies and loopholes have gone to oil companies. And we can debate if that is good or bad, but it is nearly ten times more what the biofuels companies have received, and if things proceed where we do not renew the biodiesel tax credit or we do nothing on ethanol, literally, the oil companies, as we look at how we can go to more clean energy, we have the oil companies who will continue to receive more than six billion in subsidies each year with nothing for this new burgeoning industry that is so important to our country. So, I think it is very important that we look at it in that light, and it is one of the reasons that Senator Johnson and I—and we are getting other people on the bill, introduced this SAFEST Act that you referred to, to focus more on this combination of looking at renewable clean energy, electricity, with a definition we hope, Mr. Tenny, that will work for some of the biomass issues and then also include these biofuels incentives that are so important to continue to look at this.

I just look at both sides of the aisle. People keep talking about these clean energy jobs, and to me this is the way we can get there very quickly in addition to some of the other work that is going on right now in the Senate.

So, my first question was actually related to that, General Clark, and that was about something that you just mentioned with Sen-

ator Thune, and that is the importance of the feasibility and the importance of the dedicated biofuels pipeline, and this idea that we need infrastructure to do this right. Could you comment on that.

General CLARK. Certainly. I mean, we need an ethanol pipeline to take Midwest ethanol to the Northeast. We have done the study on it. It is certainly technically feasible. It is just a question of really making it financially feasible.

And it is like one of my friends in investment banking business said. He said, I do not like to invest in anything that depends on government decisions. Well, he is a little bit overstated, but that is really part of our problem, here. The ethanol industry is very healthy, and an ethanol pipeline makes perfect sense, but what we need is the policy leadership so that the country and Wall Street can see that we are committed to moving in this direction. The funds will be there. We would like to have the loan guarantee behind it just to make it more competitive—or equally competitive with natural gas and oil pipelines. But the most important thing is the blend wall which opens up those markets for us.

Senator KLOBUCHAR. Right. And I think we have all mentioned that we thought that this was going to be completed in June. It has been pushed back. I am very disappointed in that. I have complained to people in the White House. I know we are going to try to get a meeting with Secretary Chu and Secretary Jackson to talk about this, because they have assured that they are moving ahead, but this has got to get done.

Mr. Tenny, Senator Shaheen and I—or Senator Shaheen has authored a bill called the Forest Carbon Incentives Program Act, which I support, that would compensate forest owners for the ecological benefits that their forest provides, such as carbon pollution storage.

How can we incentivize sustainable forestry practices in the next Farm Bill to make sure that we are maximizing reductions in carbon from biomass-based energy?

Mr. TENNY. I think that probably most the important thing that the Farm Bill can do is what the previous Farm Bill did, and more of it, and that is, send the signal to the forest owner community, to the biomass community, that the contribution that they can make will in fact be welcome by the policy.

We will not have trouble continuing to realize the carbon benefits of our forests if the markets are there. It is when we start losing those markets that we get into trouble. If there is anything that is perilous to the future of our forests, it is the forest owner who is faced with difficult economic choices because the value of that forest land cannot compete with other land use values around it. And when that reaches a tipping point, then we start losing our forest resources, and then we start to have— diminishing the full potential that they can contribute to our carbon economy.

And so, I think that as we look forward in the Farm Bill, if we are looking at energy programs, we need to make sure that we send that signal that biomass energy is going to be a fundamental part of the program.

The other thing that needs to happen is we need a clear signal from EPA. The tailoring role—I do not want to understate the change in position that has occurred as a result of the tailoring

role. The international community has recognized that in countries like the U.S. where our carbon stocks are increasing in our forests year in and year out, we are net contributors to the solution. We are net sequesterers of the carbon; yet, if a policy comes out from the EPA that questions that or that changes the position of the United States and starts to wonder whether carbon emitted from renewable energy from forests is the same as fossil fuels and is not quite sure what the answer might be, that sends a very chilling message, and that needs to be corrected very quickly. Otherwise, the entire biomass community is going to be at a standstill wondering if they are going to be regulated or if they are going to be allowed to go forward to make their contribution.

Senator KLOBUCHAR. And I think that is frustration across the board when I look at General Clark with some of the biofuels issues that we need to set these standards and move ahead, because—and maybe General Clark—and then I have a quick question for Mr. Zuber—want to comment. I know you have mentioned this, but this investment is going to go overseas, if we do not start—and it is already happening, because they get it in Brazil, and everything in Brazil, doing biofuels, to China producing solar panels, to other countries using our technology and now manufacturing wind turbines.

Do you want to comment on that, General Clark, and then I will have a quick question to Mr. Zuber?

General CLARK. Senator, I do want o comment on it, but first I want to say very clearly how grateful we are for the legislation that you and Senator Johnson put forward on SAFEST. It is a—across the board for renewables, it addresses and corrects many of the inconsistencies and problems that have been there. We thank you for that.

But it is a competitive investment, environment, right now. We had the lead in this country in solar. We have the lead right now in biofuels. We lost our lead in solar, that has gone to China. Wind has always had a European lead to it, even though we have the greatest wind resources in the world, in the United States of America, and somehow we have to capture wind, solar, and biofuels in the United States.

I would say, Senator, one of the things that has been most distressing to me is that if you look at the Stimulus Bill, that this great resource for investment in America is our pension funds, and because of the way that the Stimulus Bill was structured, our pension funds were not able to invest and take advantage of the Stimulus Bill. So, driven by rate of return considerations, they are looking for investments in the BRIC countries rather than in the United States in this renewable energy field.

And in the case of biofuels, that money is just standing by on Wall Street waiting for a decision. It will pour into the Midwest of the United States if we have a strong decision that says, we are moving forward, E15 and beyond, in biofuels. There is plenty of investment capital; there are plenty of smart people who want to invest in this country. They just have to see the opportunity for return.

Senator KLOBUCHAR. And they need to get something like a renewable electricity and biofuel standards in place to get that return.

General CLARK. Yes.

Senator KLOBUCHAR. Okay.

Quick question, Mr. Zuber, because then I want to turn it over the Senator Grassley, because in Minnesota, we never mess with Iowa, because they are our neighbor.

In your experience and from talking with other producers, you clearly have that hands-on experience with the digester, are cogeneration and digester technologies getting cheaper and more efficient, or what have you seen in terms of progress?

Mr. ZUBER. I think they have got a ways to go.

This gas scrubbing is crucial. I think if we can get the quality of gas—right now, the way we are scrubbing it, gasses with bacteria—the gas goes through a bacteria substance that filters it. If we can scrub that gas and get it pure enough so it is as pure as what can go in a natural gas line, I think it is unlimited.

I think the biggest thing—I think more of these would have went in in this last round, but what got us was the milk price crisis. I mean, I had three or four other dairymen that were really interested——

Senator KLOBUCHAR. Right.

Mr. ZUBER. —and we all stood in a room and looked at each other, and I mean, when you are losing $700 a cow—and that is what we lost in 2009—I mean, it takes an awful lot of guts to do something——

Senator KLOBUCHAR. Right. And I think that is why you know we have done some improvements funding the Milk Act. Senator Sanders and others have worked on this. I know my friend, Collin Peterson is working on it as well, looking into the next Farm Bill with the milk program, as well as Senator Lincoln, as well as what we can do with the export market, which I think could really help with dairy, because the decrease in the export market has also gone hand-in-hand, as you know, with the decrease in prices.

Mr. ZUBER. Exports are crucial.

Senator KLOBUCHAR. Okay. Very good.

I am now going to have Senator Grassley ask his questions.

I said, as I noted, with South Dakota, Iowa is another great state for not just biofuels but also renewable energy. They lead—one of the leading in wind manufacturing and very interested—I know Iowa and other states—in how we can get some of that manufacturing to stay in the United States of America and build in the United States of America.

Senator Chambliss, in keeping with the bipartisan nature of the Ag Committee, is going to take over for me because I am going to the Mall to give a speech to the Council on Independent Living, if all the audience has not yet wilted in the heat and sun.

So, I want to thank our witnesses. You have been great, and thank you, Senator Chambliss, for taking over.

Senator GRASSLEY.

Senator GRASSLEY. General Clark, I support what your organization has put forward on infrastructure components. The plan does, as we know, include some reduction in the existing tax credit, and

of course none of us can really predict whether Congress is going to pass a comprehensive energy bill that might provide opportunities to consider some of these infrastructure incentives.

So, my question is, in the absence—and I want to emphasize the word "absence"—in the absence of enacting these robust infrastructure policies, does Growth Energy supporting maintaining the existing tax credit for blending ethanol?

General CLARK. Senator, thank you, and we appreciate your support for Growth Energy and for the industry as a whole.

And if we cannot pass comprehensive energy legislation, absolutely, we fully support the extension of current tax policies and the extension of the secondary tariff on foreign ethanol.

Of course, our preference would be to extend and redirect some of this assistance into the building out of the infrastructure because ethanol is so competitive right now that really it is a matter of working the demand side so consumers can buy it as much as it is work on the supply side. But if we cannot get these issues addressed in the energy legislation, we certainly support the straight extension for five years at the current rate.

And Senator, if I could, the critics, they often want to focus on the costs of these government programs, and they totally ignore or misinform the public about the benefits. The relatively small amount invested by our government in the development of biofuels has yielded tremendous benefits to the Nation, and I just think we can never forget what the ethanol community is doing for this country. We are replacing about 13 billion gallons of foreign oil each year. We have created about 500,000 jobs related to ethanol, we have improved the environment, we have reduced the cost of government farm programs, we have added $66 billion to the Nation's GDP. And if all government programs had this kind of return, our economy would be in great shape.

Senator GRASSLEY. Well, I think you just answered my second question, and you do not have to answer it, but I want to put it on the record—and if you did not answer it, then fill in, but I think that what you said is very, very important, that the cost to our economy of dependence upon foreign countries for 60 percent of our oil needs is great, and you just said that you believe the true cost of our foreign oil dependence is very great.

Maybe one thing that you did not touch on that you could is the benefits for national security of not being dependent upon foreign sources of energy. And being in the military, as you are, you know more about that than anybody else.

General CLARK. Well, Senator, I appreciate the chance to talk about that.

I was a Captain in 1973 and came down here in December. I was teaching economics and political philosophy at West Point. I came down here and worked at the Pentagon and wrote the first DOD papers on the impact of the energy crisis on the Defense Department, and it was a far-fetched vision in 1973, as we were coming out of Vietnam, that someday we might have to actually put U.S. troops into the Persian Gulf.

I remember when I wrote that in a paper, there was outrage among these other colonels I was working with down there in the Pentagon. They said, you are going to get us in trouble. We are

going to be called up on the Hill, the Senate—your Senator Fulbright from Arkansas is going to make you testify on this, and it seemed outrageous that an armed forces that was dedicated to protecting America from Soviet expansionism and safeguarding our allies was going to be worried about oil. And yet, if you look back over 35 years, our dependence on imported energy has distorted our foreign policy, it has fed billions of dollars into governments that do not agree with us, our values, that work against our interests, and it has led to basically three conflicts and an ongoing terrible conflict going on in the Middle East today as a secondary impact of the money that we have put out there and the consequences of this.

And now, the dangers are even more substantial. It was bad enough when oil was $12 a barrel, but when it is $70, $75, and $80 a barrel, the $300 billion plus a year that we are spend—if we could keep that money in the United States economy and use it and multiply it and get it into education and technology and business development, we would solve many of the economic issues facing this country, and we could do it right—we could start doing it right now. We do not have to wait for a hydrogen economy, we just need to turn America's farmers loose.

Senator GRASSLEY. Would you have a rough figure, if all these factors were quantified in the cost of a gallon of gasoline—and they are not today—if they were, what would be the cost of a gallon of gasoline?

General CLARK. The best figures I have seen show it to be around $7 or $8 a gallon when you count the subsidy and the expenses of the military commitments and so forth that are going in there for the cost of gasoline.

Senator GRASSLEY. And one last question. I missed your testimony, but I know from reading it that you stated Growth Energy filed a waiver with a lot of other people on the U.S. EPA to approve ethanol blends of 15 percent. EPA and the Department of Energy have been dragging their feet for a year-and-a-half on this. It is anyone's guess as to when a decision will be finally be made. And quite frankly, in Iowa, I get asked this question an awful lot, when are they going to do it and can we do anything to make them do it, and it is pretty difficult, except it is their decision.

So, a question that may be difficult for you to answer, but if you can answer it, I would appreciate it, do you believe that there is any anti-corn and ethanol bias at the Department of Energy or the Environmental Protection Agency?

General CLARK. Senator, I would just be way over my head in answering a question like that. I just do not know.

But I do know this, that we always have a propensity in this country to look for the very, very best solution. I remember when we were talking about the hydrogen economy being the next big thing, and a lot of us were saying at the time—we were saying, a hydrogen economy, sure, 30 years out. So, it means that we will just keep business as usual. And there is a lot of interest in these advanced biofuels and I am all in favor of these advanced biofuels.

But what I look at is—I travel around America and I see people without work, I see families in trouble. And I look at the opportunity cost of continued delay—we could add jobs tomorrow if we

went to E15. And honestly, if we did it legislatively rather than by regulation, it would be even better, in my view. I would like to see us just move on into the biofuels revolution.

One of the things I said in my testimony that I strongly believe is that this is one of the great technology breakthroughs, potentially, in the 21st century, and it is Americas. We developed it, developed—in Iowa, in the Midwest—with ethanol, and it has gotten increasingly effective and efficient and people overseas are asking for it, because it is not just America that suffers from the cost and hazards of importing oil, it is many other countries in the world.

Somehow, we have got to help our own citizens understand this tremendous jewel that we have created in our biofuels capacity in America. We should really be proud of it. There are people in the Midwest who are as innovative and far-thinking as people in Seattle with Microsoft or people in Silicon Valley. They are just as good, and if you roped up the stories, their business profiles would be just as glorious, they are just working in a different medium. We need to recognize those people and promote them. That is our future in this country.

Senator GRASSLEY. Let me finish, Mr. Chairman, but just adding to what he said.

He could not answer my question, and maybe I cannot answer it in an intellectually honest way because you do not really know what the institutional biases are, but even in the previous administration, four or five years ago, there would be people like Senator Thune and me and people from the U.S. Department of Agriculture and the EPA and the Department of Energy sitting across discussing when can we move forward with this. Maybe it was even before the petition was filed, I do not know, but we got all sorts of— now, this is in the previous administration, so there is nothing political about this; I am speaking institutionally. It seemed like USDA and Department of Energy were giving us reasons why you could move ahead, but I got the feeling that the EPA wanted to drag their feet and drag their feet and drag their feet in those initial discussions. And here we are, four years later, still dragging their feet on this issue.

General CLARK. Well, Senator, if I could just have a word in response.

Our EPA Administrator has been very up front and cordial with us in saying she wants to move this forward. The Secretary of Energy apologized to me personally at a White House meeting several months ago for the delays in testing. So, I know there is goodwill and an intent to do this in this Administration, but I do think that, across America, we have a real communications problem with members of the public. This is somebody else's rice bowl.

When we started the Internet Age and started personal computing, there was no opposition because there were no alternatives to personal computing. The slide rule manufacturers did not have enough of a say in the country to really put up any opposition to personal computing, and the trouble is, in this field, in energy, there are huge forces out there that we are challenging. Some of them have come to me personally and said, Wes, you are killing us with what you are doing because this ethanol, at the margin, it is cheaper, it is driving down the price of gasoline, it is making our

refineries less valuable and so forth. And I hear those comments all the time. I know what we are up against, and those comments are reflected in political forces, they are reflected in advertisements, but I just think you cannot beat America's agricultural community. Year in and year out, America's farmers are increasingly productive, increasingly efficient, increasingly innovative. And Mr. Zuber here is an example of that in what he is doing with methanol. So, I think that is winning side to be on, and that is why we are at Growth Energy trying to do these communications with the public so they understand that this is America's strength, its tremendous agricultural community. We have to use it in the 21st century.

Senator GRASSLEY. When corn was $7 a bushel, ethanol was scapegoated to increase the price of food by—when corn was $7, increase the price of food by 20 percent. The price of food has not gone down when corn is down to $3.50.

General CLARK. It was a $100 million scapegoating campaign. We know it; we know who was behind it; and we are working out there every day to address it.

And Senator, I just want to say, we sincerely appreciate your support in this effort; it is very, very important.

Senator CHAMBLISS. [Presiding.] Thank you, Senator Grassley. And I have a feeling if there is any bias against soy beans or corn at the Department of Energy or USDA, we will hear about it again as we go into the debate this fall on this tax credit.

Well, gentlemen, thank you all very much for being here. Thanks for your testimony. You have been hugely informative this morning and we appreciate it and look forward to working with you.

Our next panel is the Honorable Glenn English, Chief Executive Officer of the National Rural Electric Cooperative Association, Ms. JoAnne Bush, Mayor, City of Lake Village, Arkansas, and Mr. Dennis Sternberg, Executive Director of the Arkansas Rural Water Association.

Let me thank all three of you for being here this morning. Your testimony is critically important to us and we look forward to hearing it.

I would ask that you limit your statement to five minutes or less, and that way we will take your written statement for as long as you want it to be and insert it in the record.

Our first witness today is my long-time good friend, Glenn English. Mr. English has served as CEO of the National Rural Electric Cooperative Association since 1994, and before that he served for ten terms in the U.S. House as representing the 6th District of Oklahoma, and he represented it well, a member of the House Agriculture Committee and Chairman of the House Agriculture Subcommittee on Conservation, Credit, and Rural Development while he was in the House. And he has worked directly on legislation affecting rural development programs, including REA and telecommunications issues.

So, Glenn, thanks for being here, and we look forward to your testimony.

STATEMENT OF HON. GLENN ENGLISH, CHIEF EXECUTIVE OFFICER, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION

Mr. ENGLISH. Well, thank you very much. I appreciate that, Senator Chambliss, and we appreciate the committee having this hearing and giving us an opportunity to talk about this a bit.

As you mentioned, since the written testimony is going to be made part of the record, I would like to talk about, perhaps, a little broader picture that includes all the elements of this testimony. I think many people are focused with regard to the importation of oil, and that is understandable. We want to cut back on the amount of oil that is imported in this country. That has been an objective for some years and certainly a worthwhile goal.

What is not, I think, as well understood and well known is the fact that, while we expect, every time we flip the light switch the lights are going to come on, that the country is very quickly reaching the point of where the available capacity to generate electric power in this country is pretty much used up. Much of the generation was built in the 1970s, the 1980s. There has been some generation since then but not near enough to keep up with growth. And certainly, when you compound that, then, with the objectives of trying to reduce carbon emissions in this country to meet objectives of climate change and then move the ball even further and say, not only that, but we want to tell you how to do that, and you compound that, then, with the growth of the Nation itself, keeping in mind, particularly or electric cooperatives that we are growing twice as fast as the investor-owned utilities, the big power companies, in this Nation, you begin to think, I believe, to see some of the challenges that we face. And as certainly you know, electric cooperatives are not-for-profit. They are actually owned by their members, and we have an objective of making sure that our members have enough electric power to meet their needs, but to try at the same time that those electric bills they receive are affordable.

And so, this is coming around to be quite a difficult effort on our part, and particularly when we keep in mind that much of what has been discussed here this morning are future goals and objectives and future technologies and future methods in which we could achieve those particular objectives, and that is fine and good, but the real problem we have is over the next ten years. How are we going to make certain that we have enough power at the right time and be able to meet the objectives laid out by government and to be able to keep those electric bills affordable for all those folks out in rural America and, as I think many of you know, rural development is very heavily dependent upon energy. If the energy sources are not there, it is not like you are going to have rural development, and that in itself is a stopper. And so, that is part of the challenge that we face.

Electric cooperatives basically cover 75 percent of the land mass of the United States, and as such, that is probably where most of the renewable energy is going to be produced in this Nation. I am a member of a group known as 25x25. Our overall goal is 25 percent renewable energy by the year 2025. We hope that we will be able to move in that direction, but when you look at the amount of new power that is going to be needed in this Nation which is ba-

sically two-and-a-half times the amount of power being produced in the State of California today, that is what we are going to need over the next few years. And whenever you consider the growth of electric cooperatives, certainly that is a tall order.

We have certainly very ambitious objectives of trying to establish that, within the next ten years, we have to have a certain percentage of that electric power being produced for—through renewable energy, for instance.

And we all believe that, and that would be helpful in rural development, but many people focus on the fact that, if as was pointed out to us in a recent study that was done through Navigant Consulting, a very reputable group, that if we are even going to hit 5 percent renewable energy in this country, that in the eastern interconnect alone—eastern part of the country, alone. It is going to require some 10,000 miles of high voltage transmission.

If we, in fact, are going to go to 15 percent, that in itself would require 10,000 miles. And on top of that, the cost has got to be somewhere in the neighborhood of $150 billion. Well, obviously, if we are going to move to 5 percent to 10 percent to 15 percent, that transmission has to be in place before we can achieve those objectives. If we are going to have those kinds of numbers producing that amount of power, it is going to take a tremendous amount of concentration in rural America to generate that much power and to do it as cost-effectively as we possibly can. So, that pretty much dictates where that power is going to be produced, whether it is solar, whether it is wind, whether it is biomass, and then the question is going to come, what kind of transmission exists there.

And the problem is not, believe it or not, cost. Cost is not the bottom-line problem. The bottom-line problem of what we are facing is deciding across state lines, their political objections, political difficulties, political challenges. Those are some of the hills that the Congress is going to have to address before we are going to be in position to be able to produce that much renewable energy, be able to achieve the particular objectives that I know the Congress is thinking about and learning about today.

So, what I would encourage, Mr. Chairman, is for this Committee, particularly as applies to electric cooperatives, power for rural America, and particularly as it focuses on the objectives of trying to get as much of that power generated in rural communities to get the economic benefit of that, that we also focus on what can we do and when can we achieve it. How much power can we produce in what year that the electric cooperatives and others in the electric utility industry can rely on, and also the question of what is it going to take in the way of infrastructure to make sure that that power is delivered where it needs to be delivered.

So, thank you very much. I appreciate that, Senator Chambliss, and the opportunity to testify here today.

[The prepared statement of Mr. English can be found on page 69 in the appendix.]

Senator CHAMBLISS. And thank you, Mr. English.

Next witness is JoAnne Bush, the Mayor of Lake Village, Arkansas. Mayor Bush is now in her 20th year in elected office. She served as President of the Arkansas Municipal League in 2009, and she currently serves on the Finance Administration and Intergov-

ernmental Relations Steering Committee for the National League of Cities.

Mayor Bush, welcome. We look forward to your testimony.

STATEMENT OF JOANNE BUSH, MAYOR, CITY OF LAKE VILLAGE, ARKANSAS

Mayor BUSH . Thank you. In the absence of Chairman Lincoln, Ranking Member Chambliss and members of this distinguished Committee, I want to thank you for having me here to testify before you today.

As you said, my name is JoAnne Bush and I am Mayor of Lake Village, Arkansas. I am pleased to present this testimony to the Senate Committee of Agriculture, Nutrition, and Forestry, not only because this Committee oversees so many important issues for Arkansas, but also because Arkansas senior Senator Blanche Lincoln, is Chairman of this important Committee.

Chairman Lincoln has proven time and time again to be a tried and true advocate for rural Arkansas.

Lake Village is a rural community of 2,823 people. We are located in extreme southeastern Arkansas. I am pleased to be here today to discuss the USDA Rural Development Programs and the benefits they provide to rural communities.

I am here today not as an expert on the technicalities of the Rural Development Programs but as someone who can provide a perspective on what it is like for a mayor of a rural community to utilize these programs and explain the positive impact that they have on rural America.

I have worked for the City of Lake Village for 38 years. I served as City Clerk for 18 years and now I am in my 20th year as Mayor, and I am a current member of the Arkansas Municipal League and served as its President in 2009.

Arkansas is primarily a rural state. Approximately 500 cities make up Arkansas, and 70 percent of those are considered rural. Therefore, communities like these and Lake Village rely on USDA Rural Development Programs, from water and wastewater systems to housing and low-income housing. Rural Development Programs have changed the face of rural Arkansas and have allowed our small cities to thrive.

In Lake Village, we have benefited from Rural Development Programs over the years, and currently have a number of developing projects.

The program that Lake Village has found most helpful is the Community Facilities Program. This is one of the most versatile programs available to rural communities such as Lake Village. The program assists communities in a number of areas from helping a city provide a childcare center to helping police and fire departments obtain much-needed equipment.

In recent years, Lake Village has utilized the community facilities to obtain new police cars for our police department and is currently working with USDA to obtain funding to construct a new farmers' market which will create employment opportunities and increase access to healthy, local foods.

Right now I am working with Rural Development to fund the renovation of an historic building located on Main Street to house

our new city hall. A newly renovated city hall means that downtown development can begin in earnest.

Like many small communities, Lake Village downtown was once a thriving social center, and the City of Lake Village expects that renovation of this historic structure will bring new businesses to our downtown area and help people rediscover the social fabric that is so ingrained in small town living. In fact, the domino effect of economic development has already started.

As a result of the investment to renovate a new city hall, local investors have already been approached about renovating other downtown buildings. I have learned through this experience it is very difficult to find federal funding for a project such as this. For a small community like mine with a limited budget, we work diligently to pull together several funding sources to begin construction on the new city hall. This type of innovative thinking is imperative for rural communities to survive, and Rural Development knows and understands that partnerships are what makes projects work.

For a small town mayor with infrastructure and community needs, I have to lean on my local Rural Development area office in Monticello, Arkansas for support and assistance. I have to say that they have been tremendous with their help, and I would like to acknowledge their work over the years that I have been working with them.

I cannot tell you how important it is for rural communities to have access to USDA staff who understand the unique issues facing our towns. Mayors of small towns like Lake Village do not have grant writers, and often do not have the ability to seek outside resources to help support grant and loan packaging; however, USDA staff understands that small town mayors are working their hardest to increase the quality of life for their citizens and support us through this process. I am thrilled to have access to personnel as dedicated as those in Monticello, as well as the USDA State Office in Little Rock.

It is no secret that small rural communities have limited resources across the board. One particular challenge for rural communities, particularly in Arkansas, is the lack of broadband for rural services. Without this basic public infrastructure, rural communities are unable to compete in this ever-growing global economy, and we are left at a disadvantage for increased educational opportunities. USDA Rural Development sees and understands this challenge, and must continue to assist communities such as Lake Village, build this critical infrastructure.

My experience as a small town mayor and as past President of the Municipal League, Rural Development Programs work, and they work at the local, state, and federal level. While public infrastructure is important, equally important is technical assistance to rural communities.

Lake Village has been fortunate to participate in Winrock International's nonprofit improvement program, which is funded by the USDA Rural Community Development Initiative. This program has proven extremely helpful to local leaders like me. This program allows Winrock to provide capacity building technical assistance to small communities and nonprofits. Winrock's assistance and contin-

ued partnership has given our community access to grant reviewers and classroom instruction, and most importantly have led to introductions with individuals with the ability to assist us in all areas of economic and community development. This type of technical assistance program is effective, and we are thrilled USDA Rural Development funds this important program in Arkansas.

Ranking Member Chambliss, I appreciate the opportunity to speak to you today, and I look forward to answering any questions you may have. Thank you.

[The prepared statement of Mayor Bush can be found on page 58 in the appendix.]

Senator CHAMBLISS. Thank you very much.

And our next witness will be Dennis Sternberg. Mr. Sternberg has served as Executive Director of Arkansas Rural Water Association since 1993. In 2006, Mr. Sternberg received the Executive Director of the Year Award from the National Rural Water Association. And in 2009, the United States Department of Agriculture and National Rural Water Association recognized Dennis for leadership in emergency response preparation.

So, Mr. Sternberg, you have a distinguished career. We are pleased to have you here and look forward to your testimony.

STATEMENT OF DENNIS STERNBERG, EXECUTIVE DIRECTOR, ARKANSAS RURAL WATER ASSOCIATION

Mr. STERNBERG. Thank you, Mr. Chairman.

Senator Chambliss, I am honored to be here representing Arkansas Rural Water Association and National Rural Water.

I would like to make an addition to our written submittal on our testimony before I begin. One omission in the testimony on page two, the fourth paragraph, when I reference the historical low delinquency rates, I omitted the point, the decimal point. So, it should read ".67 and .21 of 1 percent," and I apologize for that confusion, but I would like to have that inserted.

Senator CHAMBLISS. That will be inserted in the record without objection.

Mr. STERNBERG. Again, I am honored to speak to this Committee, to testify to you and on the Department of Agriculture's rural water and wastewater funding programs and associated technical assistance initiatives that directly benefit small and rural communities with safe drinking water and adequate sanitation.

I look at these USDA investments in water, infrastructure, and their impact from a holistic view. This is not just putting pipes in the ground; these investments have many direct additional benefits that provide a catalyst for economic and community growth while, at the same time, enhancing and maintaining community health. A small community's ability to provide adequate drinking water and sanitation often determines their ability to thrive and remain viable in the future.

Many small communities in Arkansas and other states are paralyzed due to the inadequate drinking and wastewater treatment and capacity limitations. Many cannot attract economic development, meet federal environmental standards, or maintain and grow their population base. With the limited federal resources, it is my hope that this Committee will look at a creative solution in the

next Farm Bill to provide rural development, alternative, affordable financing options for our communities. Rural Water stands willing and able to work with you to accomplish this goal.

As you are aware, the economic downturn has also disproportionately impacted many of these small and rural communities more than our urban counterparts.

Small rural communities are also faced with the additional burden of reduced tax revenues that impact their ability to provide essential services like water and wastewater.

Rural Development also has the unique advantage over the federal agencies because of their field structure that includes experienced staff with community development, expertise scattered throughout small town Arkansas and throughout rural America. This structure allows them to serve communities that are both small and remote.

Mr. Chair, I would like to specifically address three sections of the Farm Bill that enable us to carry out our mission at Arkansas Rural Water Association.

First, the Rural Development Circuit Rider Program— since 1980, circuit riders have produced onsite technical assistance to small communities in all states for water infrastructure, development, compliance, training, certification, operations, managements, rates, disaster relief response, public health protection, all necessary to encourage local responsibility and local solutions for protecting and enhancing water resources. The mission is to provide grassroots assistance to communities in need of providing safe, affordable, and sustainable water and wastewater service.

Second is the Farm Service Agency's grassroots Source Water Protection Initiative. This is the only statewide initiative ensuring environmentally progressive local land use decisions for local elected officials, land owners, agricultural producers, and other interested parties.

Third is the Wastewater Technical Assistance Program. This initiative provides on-the-ground technical assistance directly to communities for wastewater treatment facilities. Assistance includes design, upgrade recommendations, daily operations, maintenance, assisting with permit renewals and helping these systems meet compliance requirements from state and federal regulations.

From the local community perspective, these initiatives are the most effective environmental protection efforts for drinking water and wastewater quality, groundwater protection, source water protection, compliance with federal mandates from the Safe Drinking Water Act and the Clean Drinking Water Act, and other federal laws.

Rural and small communities want to ensure quality drinking water and wastewater. After all, local water supplies are operated by people who are locally elected, whose families drink the water every day; however, the need for common sense assistance in the form that they can understand. Many small communities rely on volunteers or part-time administration to operate their local water supplies. Rural Water uses funding from Congress to provide every small community in all states the technical resources to provide safe and affordable water.

In closing, Mr. Chairman, I would urge the Committee to address the current underlying statutory authority for water programs that presently do not provide the Secretary the needed flexibility or waiver authority in administering these funds to local communities. I have heard numerous situations in Arkansas where a small community is not eligible because they slightly exceed the population or meeting income limit or needed to have a grant-to-loan ratio for affordability purposes. The ability to use grant dollars for the very low-income communities is critical. In some instances, communities cannot afford the debt to service large loans, especially in the economic climate. We would like to ask the Committee to explore providing the Secretary with this authority.

All communities have leaders, some are elected and others are just concerned citizens, that want to improve the quality of life in their community. Arkansas Rural Water with USDA as our partner stand on the front line working daily with these leaders on a local level to ensure our rural communities are not left behind. No community can grow or improve without sustaining resources of water and wastewater services. With your continued support and leadership, we will continue to prosper.

Thank you, Mr. Chair, for you allowing me to testify before you today, and I would be glad to take any questions.

Thank you.

[The prepared statement of Mr. Sternberg can be found on page 73 in the appendix.]

Senator CHAMBLISS. Thank you very much, Mr. Sternberg.

And Glenn, let me start with you. You stated in your testimony that your number one objective of NRECA and your member cooperatives is to keep the cost of electric power low for your consumer owners in rural America.

We are in a regulatory environment like I have never seen before in my 16 years. There is a lot of over-reaching, particularly by agencies like EPA into your realm, as well as DOE. We are now looking at whether we have an energy bill or not that may restructure or seek to restructure the entire power production industry in this country, or it may even be that we are looking at a utilities-only energy bill right now that would have a significant impact on you and your membership and thus their customers.

How does this type of atmosphere play into the ability of your membership to look forward and anticipate that they are going to be able to keep utility bills at the residential and commercial level reasonable and affordable?

Mr. ENGLISH. Well, I think it has a huge impact. We have got, obviously, tremendous uncertainty. You cannot plan; you do not where to go; you do not know what direction and what road to go down. We all see different ideas proposed, different pieces of legislation, the Congress thinking about this or that.

We have, as you pointed out, a large number of regulations that are coming forward on existing law, and taking new directions, and that, too, influences the decisions. So, it crowds our member ship, and as it does, the industry at large, but particularly I think it crowds our membership into just a very few options, and those options are generally going to be more expensive. And as you add

more requirements onto that, then that obviously adds more expense, there is more cost.

So, all of that compounds the problem, makes it more difficult to keep those electric bills affordable. And as you know, percentagewise, you have more low-income people living in rural America than you do in urban America. So, there is a disproportionate aspect to this. And certainly, as you look at regulations dealing with carbon, that, too, will disproportionately hit certain regions of the country as opposed to others. So, there is nothing even about it. There is no distributing the burden for these increased costs, and that is the reason I am hopeful that we will begin to see some people looking at the realities of this thing, particularly for the next ten years, of what can you do and when can you do it. The Electric Power Research Institute probably has done more in this area than anyone else. They have laid it out and they continue to adjust their projections as to what can be done. I think everyone recognizes right now efficiency is probably the way that you avoid building generation. And any generation that is built now is going to be the most expensive generation in history, adds to the electric bill. So, anything that we can do to avoid building additional generation is beneficial, and the so-called Rural Star legislation is one way in which we think we can make a contribution and help avoid building that additional generation to help keep electric bills down.

Second, right now, most of our folks, if they have to have additional generation, they are going to turn to natural gas. That is more expensive, but you can build a natural gas plant fast; you can get it within two to two-and-a-half years, but you are also recognizing the fact, if you have looked at this industry for any period of time, that gas has a history of being very volatile. And so, gas prices may be very affordable now, that is not to say where they will be down five to ten years from now, and that may have a huge impact.

Nuclear, I know in your home State of Georgia, our members are interested in participating—have committed to participate in building a nuclear plant. It takes ten years to build a nuclear plant and a lot of money and then we still have the waste issues. Those have to be addressed in some way.

So, as you begin to look at this, if you are looking at it from the standpoint, say, of an electric cooperative who is trying to meet the power needs of the future, the question is, okay, what do I do the first year, the second year, third year, fourth year, fifth year. What can I count being delivered when? And we have a lot of ideas, a lot of technology that is being viewed and looked at, but what can you rely on, and many people I do not think have a very good understanding of that. We have a lot of folks—and I know in this Committee—and my goodness knows we have a national renewable cooperative already set up—that national renewable cooperative cannot do much. To be honest about it, they cannot generate much in the way of renewable energy. Why? There is no place to go. No place to go.

We can build huge wind generation farms in the Great Plains, that is where the wind is. Most of us recognize and understand that. We do not have it in Georgia, but you can do that in the Great Plains, but there are not that many people living in the

Great Plains. It does not take long to saturate the Great Plains with electric power. And so, if we cannot move that power out of the Great Plains, it does not do us any good to build it. We are not going to go out there and invest the money in a wind generator that does nothing except turn and does not really benefit anyone.

Second point is you have certain realities with regard to renewable energy, such as—as I think we all understand and know—it is intermittent. The wind does not blow the same every day, and the wind has a tendency to blow at night more than it does during the day time. How do we offset that? So, we have to have some kind of baseload generation that you can count on and find some way to integrate renewable energy in with the rest of our energy plan, and that has to be laid out.

Certainly, nuclear power—can we speed up the building of a nuclear power plant? I understand in China they can build them in five years. It takes us ten years, and at what cost? And what do we do with regard to that spent fuel, and can we, in fact, do as other countries do, reprocessing it? And I was involved, my goodness, years and years ago, the late 1970s, when we said, oh, we cannot do any reprocessing of fuel because it has the tendency to produce weapons-grade plutonium. Is there a more sensible way of going about that?

So, I guess what I am saying, Senator, and you kind of pulled my chain on this one and did a pretty good job of it and excuse me for rambling on, but basically what it comes down to, wouldn't it be nice to look at the next ten years and have government be a partner saying, okay, this is what we can do during this period of time. You can count on it; you can rely on it; you can go out and depend on it as far as an energy industry, and you can build the generation and you can accomplish it in this fashion.

But as you pointed out earlier, and as several Senators have—goodness, we cannot even get this straightened out between government agencies, and certainly this is happening in the State of Georgia with regard to trying to use biomass. We have got—you have the Farm Bill and the regulations came out in the Farm Bill and what USDA is doing, which we thought we all understood and that is what we can count on and depend on and we were going to be able to, in fact, use biomass and building generation, but out of EPA, we have a more narrow definition, and now you cannot build all the generation down there. So, we say we want biomass involved, we want renewable energy, but then, whenever we have one agency that comes out with a definition completely contrary to what this Committee produces, how in the world do you depend on that? And where do you go with that?

So, that is the reason we are just shifting one foot to the next trying to figure out what the heck do we do now, and we do not know.

Senator CHAMBLISS. And we sympathize with you.

Mayor Bush, in your current position and as past President of the Arkansas Municipal League, do you see advantages to regional approaches to rural economic development, such as those through the Delta Regional Authority, which includes numerous Arkansas counties, and are there any disadvantages to that type of activity?

Mayor BUSH . Senator Chambliss, I would say that you can no longer exist unless you develop regionally in all aspects, whether it is community development or economic development, you must take a regional approach.

The DRA has been very helpful. We also have an organization in our region called the Southeast Arkansas Cornerstone Coalition, and we do depend on one another regionally to promote one another and move forward, and I think that that is the only way that we will survive.

Senator CHAMBLISS. Mr. Sternberg, I am sure you know my good friend Jimmy Mathews, the longtime head of the Georgia Rural Development and Water Authority, and as I talk to Jimmy from time to time about the same thing—I just visited with Glenn about the massive regulations coming out of Washington that are affecting rural water projects, how do you see small towns in Arkansas coping with these massive regulations, expensive regulations, that are coming out, and what thoughts can you give us as to how we ought to approach the lessening of those regulations from a practical perspective?

Mr. STERNBERG. Well, it is interesting—and when you mentioned Jimmy Mathews, Executive Director, from Georgia, I looked to see if he had his logo on these Georgia peanuts, but they are not there, but——

Senator CHAMBLISS. His name is probably on there somewhere.

Mr. STERNBERG. Somewhere. But no, Senator, rural and small communities are challenged, especially with the federal regulations continually coming down. Under the RUS, the Rural Development Programs, loan and grant programs, I do think that we need to take another look at the low to moderate income formula on how that is done for loan-to-grant ratios so some of these communities can access more grant funding.

Some of them—Mayor Bush and I were talking—one of her projects is just exceeding that limit on the percentages to be able to afford the grant. So, there are issues, and it is throughout Arkansas and it is throughout the Nation, but especially in Arkansas, we have seen several of those issues.

EPA regulations are continually going to be bothersome for all water and wastewater system in the future. I am not saying they are not needed, but there is a tremendous cost that these systems are going to have to comply with to get up and running, and that is one of the things, with the funding that this agency allows is through USDA to provide the funding through wastewater and source water to help those small systems comply with those regulations. They cannot afford to hire engineers every time a new regulation comes down. They need assistance and they need quick assistance a lot of times, and that is what the success of our programs have been throughout Arkansas and throughout this Nation with rural water and continued funding to them is definitely something—I would add that regionalization is something we are going to have to look at in the water industry. We are seeing it in Arkansas where you have regional suppliers supplying to the smaller communities because of the new federal regulations coming from EPA on compliance issues. There are several of the EPA regulations it is going to affect—Arkansas and throughout this Nation.

Senator CHAMBLISS. Well, thank you very much, and thank all of you for being here. And let me assure you that the lack of attendance in no way is reflective of the value of your testimony. We are all busy and have conflicts. In fact, I am late right now to another hearing that I have to get to. But we appreciate very much you being here. Thanks for the great work you do in your respective areas, and we look forward to dialoguing with you as we move towards the reauthorization of the Farm Bill in 2012.

The record will remain open for five business days for members who could not attend to submit questions in writing. And with that, the Committee is adjourned.

[Whereupon, at 12:03 p.m., the Committee was adjourned.]

APPENDIX

JULY 21, 2010

Submitted testimony of
JoAnne H. Bush
Mayor, City of Lake Village, Arkansas

Senate Committee of Agriculture, Nutrition and Forestry
July 21, 2010
SR-328A Russell Senate Office Building
Washington, D.C.
9:00 a.m.

Chairman Lincoln, Ranking Member Chambliss, distinguished members of the committee, thank you for having me testify before you today. My name is JoAnne Bush, and I am the Mayor of Lake Village, Arkansas. I am pleased to present this testimony to the Senate Committee of Agriculture, Nutrition and Forestry, not only because this committee oversees so many important issues for Arkansas, but also because Arkansas's senior senator, Blanche Lincoln, is chairman of this important committee. Chairman Lincoln has proven time and again to be a tried and true advocate for rural Arkansas.

Lake Village is a rural community of 2,823 people located in extreme southeastern Arkansas. I am pleased to be here today to discuss USDA Rural Development programs and the benefits they provide to rural communities.

I am here today not as an expert on the technicalities of the Rural Development programs, but as someone who can provide a perspective on what it is like for a Mayor of a rural community to utilize these programs and explain the positive impact that they have on rural America. I have worked for the city of Lake Village for 38 years. I served as a city clerk for 18 years, and now I'm in my 20th year as Mayor. I am a member of the Arkansas Municipal League and served as its President in 2009.

Rural Development is Vital to Rural Communities

Arkansas is a primarily rural state. Approximately 500 cities make up Arkansas, and 70 percent of those are considered rural. Therefore, communities like these, and Lake Village, rely on USDA's Rural Development Programs. From water and wastewater

systems to hospitals and low-income housing, Rural Development programs have changed the face of rural Arkansas and have allowed our small cities to thrive.

In Lake Village, we have benefited from the Rural Development programs over the years and currently have a number of developing projects.

The program that Lake Village has found most helpful is the Community Facilities program. This is one of the most versatile programs available to rural communities such as Lake Village. The program assists communities in a number of areas, from helping a city provide a child care center to helping police and fire departments obtain much needed equipment. In recent years, Lake Village has utilized the Community Facilities to obtain new police cars for our police department and is currently working with USDA to obtain funding to construct a new farmers' market, which will create employment opportunities and increase access to healthy, local foods.

Right now, I am working with Rural Development to fund the renovation of a historic building located on Main Street to house our new city hall. A newly renovated City Hall means that downtown development can begin in earnest. Like many small communities, Lake Village's downtown was once a thriving social center, and the City of Lake Village expects that renovation of this historic structure will bring new businesses to the downtown area and help people rediscover the social fabric that is so engrained in small town living. In fact, the domino-effect of economic development has already started. As a result of the investment to renovate a new city hall, local investors have already been approached about renovating other downtown buildings.

I have learned through this experience it is very difficult to find federal funding for a project such as this one. For a small community like mine with a limited budget, we worked diligently to pull together several funding sources to begin construction on the new city hall. This type of innovative thinking is imperative for rural communities to survive, and Rural Development knows and understands that partnerships are what makes projects work.

For a small town mayor with infrastructure and community needs, I have to lean on my local Rural Development area office in Monticello, Arkansas for support and assistance. I have to say that they have been tremendous with their help, and I would like to acknowledge their work over the years that I have been working with them.

I cannot tell you how important it is for rural communities to have access to USDA staff who understand the unique issues facing our towns. Mayors of small towns like Lake Village don't have grant writers and often don't have the ability to seek outside resources to support grant and loan packaging. However, USDA staff understand that small town mayors are working their hardest to increase the quality of life for their citizens and support us throughout the process. I am thrilled to have access to personnel as dedicated as those in Monticello as well as the USDA State Office in Little Rock.

Challenges For Rural Communities

It's no secret that small, rural communities have limited resources across the board. One particular challenge for rural communities, particularly in Arkansas, is the lack of broadband for rural citizens. Without this basic public infrastructure, rural communities are unable to compete in this ever-growing global economy, and we are left at a disadvantage for increased educational opportunities. USDA Rural Development sees and understands this challenge, and must continue to assist communities such as Lake Village build this critical infrastructure.

Review of Rural Development Programs

My experience as a small town mayor and as past president of the Arkansas Municipal League, Rural Development programs work, and they work at the local, state and federal level. While public infrastructure is important, equally important is technical assistance to rural communities. Lake Village has been fortunate enough to participate in Winrock International's Nonprofit Improvement Program, which is funded by USDA's Rural Community Development Initiative. This program has proven extremely helpful to local leaders like me. This program allows Winrock to provide capacity building technical

assistance to small municipalities and nonprofit organizations. Winrock's assistance and continued partnership has given our community access to grant reviewers and classroom instruction and, most importantly, have led to introductions with individuals with the ability to assist us in all areas of economic and community development. This type of technical assistance program is effective, and we are thrilled USDA Rural Development funds this important program in Arkansas.

Chairman Lincoln, Ranking Member Chambliss, distinguished members of the committee, I appreciate the opportunity to speak today, and I look forward to answering any questions you may have.

GROWTH ENERGY GOVERNMENT RELATIONS

TESTIMONY OF
GENERAL WESLEY CLARK (RET.)

U.S. SENATE COMMITTEE ON AGRICULTURE, NUTRITION & FORESTRY

JULY 21, 2010
WASHINGTON, D.C.

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AGRICULTURE, NUTRITION AND FORESTRY COMMITTEE
UNITED STATES SENATE
HEARING ON EMPOWERING RURAL COMMUNITIES
WEDNESDAY, JULY 21, 2010
STATEMENT OF GENERAL WESLEY CLARK (RET.) ON BEHALF OF GROWTH ENERGY

Madame Chairman Lincoln and members of the committee, thank you for the opportunity to share Growth Energy's priorities on empowering rural communities and renewable energy policy. Growth Energy is a coalition of ethanol supporters committed to the promise of agriculture and growing America's economy through cleaner, greener energy. Our members recognize America needs a new ethanol approach. Through smart policy reform and a proactive grassroots campaign, Growth Energy promotes reducing greenhouse gas emissions, expanding the use of ethanol in gasoline, decreasing our dependence on foreign oil and creating American jobs.

Growth Energy was created in November of 2008 and has quickly grown to become the nation's largest ethanol advocacy organization. We currently represent 60 ethanol producing plants throughout fourteen states and 38 associate members across sixteen states. Additionally, we have more than 18,000 Growth Force members, our grassroots volunteer members who want to lend their voice to the effort of supporting home grown renewable fuels.

We recognize there are many vested interests who do not share our belief and urgent priority to reduce America's dependence on foreign oil. However, those interests will not quiet our calls on Congress to establish a national energy policy that creates jobs in the United States, improves the environment and strengthens our national security. President Obama has stated repeatedly that "inaction is unacceptable", when it comes to addressing major policy challenges such as energy. Growth Energy could not agree more. Building infrastructure to create an open, transparent and competitive market and removing production and market barriers will put consumers in the driver's seat of choosing their fuel.

With fossil fuels getting dirtier, costlier and riskier to extract, as we are witnessing with the epic catastrophe in the Gulf of Mexico, now is the time we should move on expanding the production and consumption of clean, renewable fuels like ethanol. American citizens should no longer have to sit idly by and watch other countries such as Brazil become energy independent with the use of domestic renewable fuels.

During my years in uniform, I realized America will never be truly safe as long as we are dependent on energy from other countries. Every day, our economy bleeds away about $1 billion to countries like Venezuela and Nigeria for oil – equivalent to a $1,000 tribute by every man, woman and child in this country to the economies of foreign countries. We pay this tribute because we rely on oil to run our economy, and two-thirds of all oil comes from overseas, much of it coming from nations that do not share our values or are outright hostile to the United States.

The United States holds three percent of the world's oil reserves, yet consumes 25 percent of the world's oil production, and depends on foreign sources for 60 percent of its oil. As long as we continue to consume large amounts of oil, our nation is dependent on other countries for its energy needs, and the security of such key supplies remains imperiled. We do not need to be held hostage over a barrel of oil any longer.

The only thing preventing the United States from completely eliminating hostile, foreign imports is the resolve to get it done. We have a plan; the time for action is now.

In 2008, the ethanol industry displaced 321.4 million barrels of oil and diverted $32 billion that would have otherwise been spent on oil imports. The 11.1 billion gallons the ethanol industry produced to meet the RFS2 requirement for 2009 accounted for more transportation fuel on a gasoline-equivalent basis than the oil imports into the United States from any country other than Canada. While ethanol continues to strengthen our energy independence, we can do better. Innovative policies from Congress and a regulatory environment that fosters additional growth will help ensure the goal of energy independence is realized.

Economic Benefits of Ethanol

Clean, affordable domestically-produced ethanol enhances America's economic prosperity and competitiveness through job growth, lessened dependence on foreign oil and increased GDP and tax revenues. The U.S. Department of Energy estimates that for every one billion gallons of ethanol produced, 10,000 to 20,000 jobs will be added. Hundreds of thousands of Americans are already employed thanks to the 10 percent ethanol in most of our nation's gasoline. Ethanol use reduces the price of gas by as much as 20-35 cents/gallon (DOE estimate), saving the average American household $150-$300/year. Iowa State University researchers found that ethanol use may take as much as 40 cents off a gallon of gas.

In 2008, the ethanol industry created and supported more than 400,000 new jobs across the country that cannot be exported or outsourced. In addition, ethanol production contributed $53.3 billion to the nation's GDP and generated $8.4 billion in federal tax revenues, resulting in a surplus of $3.4 billion for the Federal Treasury. Ethanol production also plays a critical role in revitalizing America's rural areas — some of the hardest hit by the economic downturn — creating high-paying jobs and stimulating economic growth.

Ethanol is a 50-state solution. It can be made out of trash, trees, grass or the massive grain crop supply that our industrious farmers produce in surplus. According to the U.S. Departments of Agriculture and Energy, there is more than one billion tons of sustainable biomass available in the United States on an annual basis, which has the potential to generate 85 billion gallons of cellulosic ethanol annually. Thus, the combined production potential of cellulosic ethanol and grain-based ethanol could produce enough biofuel to nearly supplant current gasoline usage from domestic, renewable sources.

America's dependence on imported oil leaves the economy vulnerable to supply disruptions and price volatility. Energy price spikes have a devastating effect on consumers and the economy as a whole. In addition, the cost of importing oil results in hundreds of billions of American dollars being sent overseas rather than invested at home.

Renewable Fuels Standard II (RFS2)

Congress set an aggressive goal of using 36 billion gallons of renewable fuels by 2022 on an annual basis when it passed the Energy Independence and Security Act of 2007 (EISA). Implementation of EISA will create and preserve American jobs, foster the development and commercialization of next generation renewable fuels such as cellulosic ethanol, enhance energy independence, and benefit the environment.

The EISA policy not only aims to improve our national security, but will have considerable economic impacts, including:

- The $631 billion of expenditures to build and produce 35 billion gallons of ethanol will add nearly $1,230 billion (2000$) to real GDP by 2022.
- Real household income will increase an average of $24.6 billion (2000$) per year between 2009 and 2022.
- As many as 1.18 million jobs will be supported in all sectors of the economy by the expanding ethanol industry.

- Federal tax revenue will increase $222.6 billion (2000$) between 2009 and 2022 while State and local tax revenues will increase $167.2 billion (2000$). Ethanol will account for nearly 30 percent of motor fuel use by 2022.

Regrettably, EISA included two policies that picked winners and losers. First, international indirect land use change is a controversial theory that uses speculative models and incorrect assumptions in an attempt to blame American farmers for deforestation in foreign countries such as Brazil. According to the theory, corn used for ethanol displaces other crops, like soybeans, which in turn causes farmers in other countries to cut down rain forests to grow soybeans and fill the demand. This policy is not advocated by scientists, but by anti-ethanol and anti-agriculture advocates. As this committee well knows, land use changes are dynamic. Changes occur for a variety of reasons; macro-economic issues such as monetary policy, currency values, domestic food needs, weather and productivity are all factors that influence land use changes.

If this dangerous theory is allowed to stand in statute, I submit that every sector of the American economy should take notice. If such theories can apply to agricultural, renewable and national security policy – there is nothing preventing the same theory from negatively impacting shopping malls, residential homes, hospitals, and virtually every element of our economy. Indirect land use change must be repealed.

The U.S. House of Representatives recognized the flaw of this policy and included a provision in the American Clean Energy and Security Act of 2009 that prevents the Environmental Protection Agency (EPA) from implementing the ILUC rule for six years while the National Academy of Sciences studies whether the theory can be corroborated by actual evidence. Growth Energy strongly urges the Senate to include a similar provision in energy legislation it considers.

The second flawed policy within EISA is the definition of an advanced biofuel. The RFS2 amended Section 211 (o)(1) of the Clean Air Act definition of an advanced biofuel and specifically excluded corn starch ethanol. We appropriately refer to this exclusion as the "discrimination clause", because it has absolutely nothing to do with environmental improvement.

(i) IN GENERAL.—The term 'advanced biofuel' means renewable fuel, <u>other than ethanol derived from corn starch</u>, that has lifecycle greenhouse gas emissions, as determined by the Administrator, after notice and opportunity for comment, that are at least 50 percent less than baseline lifecycle greenhouse gas emissions. "This arbitrary barrier is counterintuitive to the definition of an advanced biofuel meeting a 50 percent greenhouse gas reduction threshold compared to gasoline. A 2009 study by the University of Nebraska showed modern ethanol plants reduce greenhouse gases by more than 50 percent; an advanced closed-loop biorefinery with anaerobic digestion reduces GHG emissions by 67 percent. Therefore, Growth Energy strongly believes that if corn-starch ethanol is able to meet and/or exceed the GHG requirements as prescribed by the RFS2, there is no scientific reason it should be excluded from qualifying as an advanced biofuel. The words "*other than ethanol derived from corn starch*" must be removed from the definition.

In addition to the legislative barriers mentioned above, regulatory barriers exist that will prevent domestic production of grain or cellulosic ethanol from ever reaching the 36 billion gallon target. Commercial constraints applied by the government are artificially suppressing today's biofuels market. The first constraint is the blend wall that limits ethanol's participation in the 140 billion gallon liquid transportation market to approximately 10 percent. This limitation is across the board for both grain-based and cellulosic ethanol.

Today, RFS2 which is the law of the land is contradicted by government rules that prevent those mandated volumes from ever entering the marketplace. Those same government rules are the single-largest barrier to displacing foreign oil. Federal government rules must complement our laws. Growth Energy has taken it upon

itself to break these market barriers and permanently end ethanol's "blend wall." We have proposed a vision founded on market based solutions, which I'll discuss in a moment.

By adopting our plan, the Congress would create a true competitor to foreign oil and provide critical market access for all forms of diverse feedstocks. We believe that market based solutions are the fundamental key to establishing a robust, renewable energy economy in the United States. Moreover, permanently eliminating the blend wall and allowing American consumers the ability to choose their fuel of choice – will provide a 50-state solution that can, unlike previous efforts, actually eliminate foreign oil imports and benefit and secure America.

Green Jobs Waiver

In March 2009, Growth Energy filed its Green Jobs Waiver to the U.S. Environmental Protection Agency seeking approval to blend up to 15 percent ethanol in gasoline, from the current cap of 10 percent ethanol. The Green Jobs Waiver was accompanied with more supporting academic, government and third-party research than any of the eleven previous waivers approved by EPA. By raising the wall from E10 to E15, the EPA could help create as many as 136,000 new jobs in the United States and eliminate as much as 20 million metric tons of GHG emissions from the air in a year — the equivalent of taking 10.5 million vehicles off the road. Increasing the domestic, renewable fuel supply would also displace some of the twelve million barrels of oil that is imported every day into the United States from places such as Venezuela, Saudi Arabia and Abu Dhabi.

EPA announced last month it was delaying its decision for a second time despite its statutory obligation to make a decision within 270 days of the waiver filing. However, EPA told Growth Energy in writing on December 1, 2009 they were delaying the decision until the middle of 2010 to give DOE more time to complete its studies. The second delay was announced in June 2010, as DOE again needed more time to complete its testing. Growth Energy finds this further delay unacceptable. The fact that federal agencies involved cannot meet their own deadlines reinforces a public perception that government bureaucracy does not work in the best interests of the public.

We urge this committee to direct the federal agencies involved in this waiver to expedite the testing process, add extra staff, additional shifts, or whatever other steps necessary to accelerate the completion of the testing. Again, the waiver decision should have been made in December 2009; when that deadline was not met, we were promised a decision in mid-June of this year. Now we are again being told to wait for testing that we believe was unnecessary in the first place to make a decision.

Simple mathematics demonstrate at 100 percent market saturation of E10, there is a 22 billion gallon RFS2 target shortfall that cannot be achieved unless consumers are able to more freely consume fuels of their choice via multiple demand-side opportunities or a singular market access solution is achieved. Even when EPA approves our waiver and allows E15 into commerce, at 100 percent consumption, the market is limited to 21 billion gallons of biofuels – 15 billion gallons short of the RFS2 mandate. This means more must be done in terms of building biofuels infrastructure.

After 30 years of being capped at 10 percent of the marketplace, it was Growth Energy that advanced the discussion to allow up to 15 percent ethanol into commerce. It's time to move forward.

Infrastructure

Thanks to the tight grip oil has on the American liquid fuel market, fuel options for American motorists are strictly limited. The oil industry controls everything from the oil wells to the fuel pumps. Today, of the 240 million vehicles on the roadways, a mere 8 million are Flex Fuel Vehicles (FFVs). Growth Energy supports codifying the existing voluntary, domestic OEM (Original Equipment Manufacturing) sales schedule for FFVs,

and by including foreign auto makers in the same sales schedule roughly 120 million FFVs would be on the road by 2023.

In concert with the FFV mandate, fuel retail stations would need to invest in infrastructure to provide a range of fueling options to consumers between E0 and E85. Today's pump manufacturers are offering "blender pumps" to retail stations, yet only 160 exist across the nation. Similarly, only 2000 E85 pumps are scattered throughout the nation. These numbers are woefully inadequate to meet the demand of 120 million FFVs. Meaningful infrastructure incentives and parameters must be put into place today.

In order to more efficiently deliver biofuels to population centers, multiple transportation modes are necessary; today the vast majority of biofuels are moved by rail. Growth Energy believes a dedicated ethanol pipeline will not only create jobs, but improve the delivery of biofuels from its production area to areas of the country where it will be consumed. The pipeline would enable the transport of ethanol across more than 1,800-miles from the Midwest to the East Coast, increasing access to ethanol and creating jobs that cannot be outsourced.

Multiple pieces of legislation have been introduced to address the above mentioned infrastructure needs. It is vital for all three to move forward in tandem to achieve both the RFS2 targets and our nation's goal of reducing our dependence on foreign oil.

Fueling Freedom

I recognize this is not the committee with jurisdiction over tax policy, but I would be remiss if I did not outline Growth Energy's recent "Fueling Freedom" plan as it relates to the Volumetric Ethanol Excise Tax Credit (VEETC). On July 15, 2010, Growth Energy called for the redirection and eventual phasing out of government support for ethanol in return for a level playing field – infrastructure investments that will create competition in the fuels market and give consumers true freedom to choose their fuel.

Similar to President Eisenhower's proposal for an interstate highway system to give Americans the freedom to travel our great nation, I believe we must give Americans the freedom to choose an American fuel to travel those highways. The "Fueling Freedom" plan calls for the phasing out of current ethanol supports over time, by redirecting a portion of those funds to build out the infrastructure for the distribution and use of ethanol, and shifting the remaining portion away from the oil companies to opening the market.

The primary elements of the plan include:

- A portion of the funds currently going to the oil industry as an incentive for blending ethanol into gasoline (the VEETC or blenders credit) would be redirected to provide backing for the build out of distribution infrastructure for ethanol – such as tax credits for retailers to install 200,000 blender pumps and federal backing of ethanol pipelines. This will provide Americans the access to choose ethanol in an open and free market, and would allow for the elimination of the tax supports over time in exchange for that level playing field.
- Requiring that all automobiles sold in the U.S. be flex-fuel vehicles – as many as 120 million. This requires no additional cost to taxpayers and a minimal cost (about $120 per vehicle) to vehicle manufacturers.

Growth Energy's Fueling Freedom plan, once implemented, would build out the infrastructure in the United States to create a path that leads to a genuinely free market – an open market that is free of government supports. Redirecting monies currently paid to oil companies to blend ethanol into gasoline toward infrastructure improvements would enable consumers to choose between gasoline and renewable, homegrown ethanol.

Farm Bill Title IX Programs

Growth Energy strongly supports the implementation and full funding of the energy title of the Food, Conservation and Energy Act of 2008 (Farm Bill). This committee should be commended for its work in establishing a title that recognized the ability of the agricultural community to contribute and to be a part of our energy solution. Title IX programs are essential for the advancement of developing second generation biofuels.

The Biorefinery Assistance Program will provide much needed loan guarantees and grants to construct and retrofit advanced commercial-scale biorefineries. The Repowering Program will provide payments to biorefineries to produce heat or power with renewable biomass. Eligible agricultural producers will receive assistance with the Bioenergy Program for Advanced Biofuels to produce cellulosic crops for advanced biofuels. The Rural Energy for America Program provides important loan opportunities for the ethanol industry. USDA and DOE jointly run the Biomass Research and Development Program that provides funding for research, development and demonstration of biofuels. Finally, the Biomass Crop Assistance Program provides support to establish and produce energy crops for conversion to biofuels in project areas and to help with the collection, storage and transportation of biomass to use in a conversion facility. Congress should make this program permanent while USDA reviews the program to ensure current parameters and funding levels adequately encourage participation by various feedstock users.

Conclusion

Again Chairwoman Lincoln, I appreciate the invitation to come before your committee this morning. To summarize Growth Energy's priorities, it is vital to give American motorists the power to choose something other than oil at the pump. American ethanol is here today as the only commercially viable alternative to foreign oil.

In order to achieve true energy independence, we must:

- Build out infrastructure including blender pumps and a dedicated ethanol pipeline by redirecting and phasing out existing government support in exchange for these investments;
- Mandate Flexible Fuel Vehicles be made available;
- Remove regulatory barriers such as the blend wall; and
- Eliminate policy contradictions including international indirect land use penalty and the corn discrimination clause.

Growth Energy looks forward to working with the chair and members of this committee as the Senate proceeds to develop, debate and pass an energy bill.

Testimony of the Honorable Glenn English, CEO
National Rural Electric Cooperatives Association

Before the
United States Senate
Committee on Agriculture

July 21, 2010

It is an honor to appear before the Senate Agriculture Committee again, and I thank you for this opportunity to share rural electric co-ops' perspective on the issue of rural development and energy – two subjects that have, for rural electric cooperatives gone hand-in-hand for over 75 years.

The National Rural Electric Cooperative Association (NRECA) is the not-for-profit, national service organization representing over 900 not-for-profit, member-owned, rural electric cooperative systems, which serve 42 million customers in 47 states. I should also note that for the states represented by the Senators on this committee alone, NRECA has 21.6 million members and 494 electric co-ops. I know that this committee cares deeply about the fate of rural America, and I thank you for your strong support of the idea that someone's standard of living should not be dictated by his or her zip code.

Cooperatives own and maintain 2.5 million miles or 42 percent of the nation's electric distribution lines covering three-quarters 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 your constituents. That challenge is critical when you consider that the average household income in the service territories of most of our member co-ops lags the national average income by over 14%.

Clearly, bringing electricity to America's countryside has never been easy, but now rural electric cooperatives must deal with being a part of an industry in transition. The electric utility industry as a whole faces a carbon constrained environment at a time when cooperative electricity retail growth is twice the rate of total industry in spite of our heavy investment in demand response technology and efficiency. A USDA study, conducted as a requirement of the Food and Energy Security Act of 2007, found that, "Due to current and projected growth, cooperatives will need to double generation capacity by 2020." It's clear we need new generation and it needs to be as clean as practicable, but we are also dealing with multiple environmental regulatory hurdles, from the Clean Air Act to the Clean Water Act, for existing coal generation and barriers to the construction of transmission that is especially needed to support new renewable resources. Meanwhile, electric cooperatives, must like the rest of the industry, determine how to deliver reliable and affordable electricity in the face of the Massachusetts v. EPA decision, which EPA is using to regulate carbon under the Clean Air Act. Whether from Congress, the bureaucracy or the courts, electric co-ops have to figure out how to produce and deliver electricity under more difficult conditions.

A year ago, we asked an expert group to evaluate for us the challenges to building enough transmission to support the development of a robust renewable energy generation source to supply needed electricity for the near future. The study laid out the facts in stark terms: "Expanding the nation's transmission infrastructure to support 20% wind energy share may require the construction of 15,000 miles of new extra high-voltage transmission lines involving 30 states in the Easter Interconnection alone." To put this in context, the cost of

these lines reach up to $5 million dollars per mile. Reaching any kind of scale in the generation of renewables is unlikely unless we face this issue head on, and regardless of what mandates are being considered or passed at the state and federal levels, renewable generation is going to hit a wall consisting of insurmountable new costs or the inability to deliver power where needed.

Another barrier is emerging in the West, where the Whitebark Pine tree, which is being attacked by pine beetles, is now being reviewed by the U.S. Fish and Wildlife Service for possible protection under the Endangered Species Act. If this occurs, it will make the nearly impossible management of our transmission right of ways across federal lands even more difficult.

Some in Congress will suggest this is because electric co-ops are overly reliant on coal. The truth is that rural electric cooperatives are beholden to our member-owners who need affordable electricity, not any particular source of fuel. In fact, in the late 1970s and early 1980s, when electric cooperatives were last operating in a base load construction cycle, the government helped make coal our only viable option for power. In 1978, the Power Plant and Industrial Fuel Use Act, which prohibited the use of natural gas and petroleum in new electric power plants was signed into law. Then in 1979, an accident occurred at the Three Mile Island nuclear power plant near Middletown, Pennsylvania. Together, these events left electric cooperatives with a single option for keeping the lights on: coal. As the EPA and Congress have looked to restrict CO2 production this has put rural electric cooperatives and their member-owners at a real disadvantage which will raise the cost of electricity in the communities we serve.

Meanwhile, biomass, especially in the Southeast, has been touted as a way to meet electricity needs. Yet, the new EPA position not to exempt biomass from greenhouse gas control requirements (yet to be finalized) has created uncertainty about the viability of biomass for generation.

The good news is that rural electric cooperatives are constantly pursuing innovative solutions. Electric co-ops are industry leaders in energy efficiency and demand side management. Our members have worked for years on clean coal technologies. Where possible, we use renewable resources– just this year one of our generation and transmission cooperatives, Tri-State Generation and Transmission Association, began construction on a 500,000 panel solar photovoltaic power plant in northeastern New Mexico; among the largest facility of its kind in the world. And, Oglethorpe Power Corporation in Georgia is participating in what will be one of the first nuclear plants built in 30 years. The key for us, for our consumer-owners, for the standard of living in households across rural America, will be whether or not electric cooperatives are provided access to RUS lending for baseload generation, a fully staffed RUS to deliver these loans in a timely manner, new opportunities for energy efficiency loans and continued loan guarantee authority for electric co-op lenders.

In short, rural electric cooperatives must build more baseload generation, deal with severe restrictions on current base load generation and ensure new generation is as clean as possible. Meanwhile, our number one objective is to keep electricity bills low for our consumer-owners who populate rural America. It is critical this committee understands that without the financing options from the Rural Utilities Service (RUS) and our cooperative lenders, it will be impossible to keep electric bills affordable and ensure the lights stay on. Electric cooperatives are largely not eligible for the rich tax subsidies given to the other industry sectors that do not have to be reviewed every year by Congress. RUS is a highly accountable, cost effective program that merits strong Congressional support.

RUS BASELOAD GENERATION

In 2007, a administrative moratorium was effectively placed on RUS lending for baseload generation through an internal budget process known as "apportionment". That means rural electric cooperatives can no longer borrow from RUS to construct power plants that are designed to be operated twenty four hours a day, seven

days a week. These are the power plants that ensure the light comes on when you flip a switch in your home. Generally speaking, baseload plants are fueled by coal, nuclear and increasingly natural gas. And, the cost of building generation is only going up – in fact our own survey projects that we will need about $44 billion over the next 10 years for new generation. Without this lending authority, it has become more difficult for electric cooperatives to meet new electricity demand and replace older coal-fired plants that are nearing the end of their productive life cycle.

Most of this testimony is focused on maintaining affordable energy bills for rural households, but if electric co-ops cannot build new baseload generation, the reliability of the national grid is in jeopardy and brownouts are more probable according to USDA's aforementioned analysis of the issue in 2008. Rural electric cooperatives brought lights and household appliances and countless other modern conveniences to rural America over 75 years ago – we must not take for granted what took so much effort to guarantee.

During the debate on the 2008 farm bill, this committee passed, as part of its farm bill, legislation that would have addressed the RUS baseload generation issue. Though the fix did not make it through conference, I would like to thank those Senators who were on the committee at that time for working so hard to address this issue in the past. I look forward to working with you to restore this critical lending authority in the future.

RUS STAFFING ISSUES

Rural electric cooperatives have worked well with the RUS over the years, but an all too common complaint from our members is the slowness of processing and closing loans. This year, we are hearing the process is worse than usual, and there is deep concern that RUS will simply not be able to process loan applications that would otherwise have been completed due to workload issues. To put RUS staffing levels in perspective, in 1950 there were 1,152 employees in the Electric Program and they made $376 million in loans that year. Today, staffing for the Electric Program is authorized at 119 employees and they are approving $7.1 billion in loans. One tenth the employees expected to deliver 20 times the loan volume. If RUS is to aid rural electric cooperatives in keeping electricity in rural areas affordable, the agency must be equipped to deliver.

NEW ENERGY EFFICIENCY OPPORTUNITIES

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. In fact, 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.

Currently, rural electric cooperatives can borrow from the existing RUS FFB loan program for energy efficiency at a loan rate of Treasury rate plus one-eighth of 1 percent. Many cooperatives provide efficiency assistance in the form of rebates and, in some cases, financing for consumers. Yet, a barrier for electric cooperatives remains in that they have limited financial resources available to provide these services on a large scale. The cost of the current loan program would make the interest rates that the cooperatives would have to charge to consumers a major barrier for many of the member-owners that cooperatives serve.

Accordingly, NRECA has been working with several Senators on this committee to develop the Rural Energy Savings Program Act (RESPA), S. 3102, and we thank the seven Senators on this committee who have cosponsored this bill. This proposal utilizes the current RUS loan procedures, instead of creating a whole new federal program from scratch. RESPA 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. Passing this bill is another way Congress can help equip electric co-ops to find innovative solutions to our many challenges.

CO-OP LENDER LOAN GUARANTEE AUTHORITY

In addition to RUS lending, rural electric cooperatives receive financing from two private co-op lenders, the National Rural Utilities Cooperative Finance Corporation (CFC) and CoBank. Cooperatives need low cost financing to keep electricity bills low for our consumer-owners, and one important program that achieves that goal is the Guaranteed Underwriter Program. Thanks to this committee, this program can provide up to $1 billion in additional affordable financing to rural electric cooperatives through their co-op lenders. The program also enhances electric cooperatives' ability to play a role in rural development as it generates funds for USDA's Rural Economic Development Loan and Grant (REDL&G) program.

Under the REDL&G program, USDA provides zero interest loans to local utilities that they pass through to local businesses for projects that will create and retain employment in rural areas. Additionally, USDA provides grant funds to local utility organizations which use the funding to establish revolving loan funds. Loans are made from the revolving loan fund for projects that will create or retain rural jobs. By increasing the availability of financing for rural electric cooperatives and putting money into REDL&G, the Guaranteed Underwriter Program truly kills two birds with one stone and deserves reauthorization in the next farm bill.

CONCLUSION

Again, thank you for the opportunity to testify at today's hearing on rural development. Rural electric cooperatives look forward to continuing to play a strong role in the success of our rural communities, and NRECA looks forward to working with the members of this Committee towards that goal.

Thank you.

TESTIMONY OF

DENNIS STERNBERG
EXECUTIVE DIRECTOR
ARKANSAS RURAL WATER ASSOCIATION

BEFORE THE

SENATE COMMITTEE ON AGRICULTURE, NUTRITION AND FORESTRY
UNITED STATE SENATE

JULY 21, 2010

Madam Chair, ranking Member Chambliss, and Members of the Committee - it is an honor to testify before you on the Department of Agriculture's Rural Water and Waste Water funding programs and the associated technical assistance initiatives that directly benefit small and rural communities with safe drinking water and adequate sanitation.

As a native Arkansan, I am proud and honored that you chair this important Committee for the benefit of residents of Arkansas and the other states. Your humble rural roots make you an effective and knowledgeable advocate for our rural and small communities. No one needs to tell you about the barriers small town America faces each day and for that and other reasons, I thank you for your leadership and support.

Over 93% of the country's 51,000 community water systems serve less than 10,000 homes. These communities have the greatest difficulty providing safe and affordable public drinking water and sewer services because of their limited economies of scale and lack of technical expertise. According to USDA, many rural communities can't afford to provide water to all residents - leaving thousands of families to haul water, rely on shallow wells, or use unsafe supplies. To overcome the lack of density in rural areas, rural communities have turned to the USDA rural water & wastewater loan and grant program to build or extend water systems and repay the loans at reasonable rates and terms. Without this assistance, they could not construct new systems, expand existing ones, or comply with mandates. Unlike other environmental funding programs, USDA targets its funds to the smallest, most economically disadvantaged communities. As a result, the program has become the backbone of compliance with environmental mandates and increased public health/economic development in rural areas. Hundreds of communities are currently on the long national waiting list for funding, which includes a backlog of over $3 billion in eligible loans and grants.

I look at these USDA investments in water infrastructure and their impact from a holistic view. This is not just putting pipes and equipment in the ground. These investments have many direct additional benefits—they provide a catalyst for economic and community growth while at the same time enhancing and maintaining community health. A small community's ability to provide adequate drinking water and sanitation often determines their ability to thrive and remain viable in

the future. Many small communities in Arkansas and the other states are paralyzed due to inadequate drinking and wastewater treatment and capacity limitations. Many can't attract economic development, meet federal environmental standards, or maintain and grow their population base.

New businesses will not even entertain locating in an area without this infrastructure. No new homes will be constructed. These barriers are indicative to small rural communities around the nation. Recently, I heard a news report that I thought shed some light on this issue. The commentator stressed the huge investments in the country for highway, water and waste water and essential facilities in the post era World War II. This expansion led to an economic boom that began the advancement of the middle class in America. The level of federal support that exists today is not adequate to meet the demand to replace and refurbish these systems on a national scale that is affordable for these small rural communities. A large portion of this infrastructure is antiquated and needs to be refurbished and or replaced.

With the limited federal resources, it is my hope that this Committee will look at creative solutions in the next Farm Bill to provide Rural Development alternative affordable financing options for our communities. Rural Water stands willing and able to work with you to accomplish this goal. As you are aware, the economic downturn has also disproportionally impacted many of these small rural communities more than our urban counterparts. Small rural communities are also faced with the additional burden of reduced tax revenues that impact their ability to provide essential services like water and waste water assistance.

The current water and waste disposal grant and loan program operated by the Department's Rural Utilities Service has a long successful history of providing critical infrastructure assistance to meet one of the most basic needs in rural America — providing safe and affordable water and waste water assistance to low and moderate-income communities. This is one of the highest rated government programs in history, and one with a default rate that is almost non-existent with a greater than 30 day delinquency rate of .67 percent and greater than one year delinquency rate of .21 percent. The portfolio consists of over 18,000 loans that are valued at approximately $11 billion dollars.

Rural Development also has the unique advantage over other federal agencies because of their field structure that includes experienced staff with community development expertise scattered throughout small town Arkansas and throughout rural America. This structure allows them to serve communities that are both small and remote. In many cases communities that lack the capacity and resources to address many of their large issues would go without assistance if it were not for these USDA programs and the employees that make them work. Federal and state agencies would have it much easier if they just served larger and more affluent communities, but the Rural Development mission is different - they are there to ensure rural America is not left behind.

I have witnessed the restructuring and the reduction of employees and offices in Rural Development and its predecessor, the Farmers Home Administration. I would caution reducing this field presence further. One example of the benefit of this structure is the American Recovery and Reinvestment Act (ARRA). EPA was afforded the benefit to provide their ARRA funding without regard to income and population and to provide a large portion of their funding in the form of a grant. USDA did not possess this flexibility and they are and continue to target to low and moderate-income rural communities. Rural Development is on track to deliver this historic funding this fall. This would

not have been possible without this field structure and expertise. The USDA-Rural Development staff is always there to help - whether it's by providing critical infrastructure, securing affordable housing, providing broadband, securing business assistance, or helping obtain essential community facilities.

I speak to you today on behalf of the Arkansas Rural Water Association which is a non-profit state rural water association that is similar to the other associations that operate in all 50 states. While USDA has provided funding for rural communities, the Arkansas Rural Water Association has provided the training, energy audits, certification, financial management, environmental compliance, governance, and on-site technical assistance necessary to ensure that facilities operate at the highest level possible. This assistance actually saves money and protects the community and government's investments by ensuring efficient and sustainable practices are followed. This training and education empowers operators, board members, elected officials and communities with the support and knowledge they need to understand every aspect of their systems and facilities. Many of these communities lack the staff, capacity, funding or expertise to address technical water and waste-water issues. I hear daily from rural communities in need of assistance, whether it is to design or construct a new system, repair an existing system or respond to a pending emergency, we are always there. Our mission is to restore and improve the public health, environment and sustainability of these small communities or in other words, to give them a level playing field with our urban counterparts so individuals and small communities can prosper in this global competitive environment.

Madam Chair, I would like to specifically address three sections of the Farm Bill that enable us to carry-out our mission at the Arkansas Rural Water Association.

First is the Rural Development Circuit Rider Program— Since 1980, Circuit Riders have produced on-site technical assistance to small communities in all states for water infrastructure development, compliance, training, certification, operations, management, rates, disaster response, public health protection—all necessary to encourage local responsibility and local solutions for protecting and enhancing water resources. This mission is to provide grassroots assistance to communities in need by providing safe, affordable and sustainable water and waste water service.

Second is the Farm Service Agency Grassroots Source Water Protection Initiative— this is the only statewide initiative ensuring environmentally progressive local land-use decisions for local elected officials, landowners, agricultural producers and other interested parties.

Third is the Waste Water Technical Assistance program— this initiative provides on-the ground technical assistance directly to communities for waste water treatment facilities. Assistance includes design and upgrade recommendations, daily operation and maintenance advice, assisting with permit renewals, and helping these systems meet compliance requirements from state and federal regulations.

From the local community perspective, these initiatives are the most effective environmental protection efforts for drinking water & wastewater quality, ground water protection, source water protection, compliance with federal mandates from the Safe Drinking Water Act (SDWA), the Clean Water Act (CWA), and other federal laws. Rural and small communities want to ensure quality drinking water and wastewater. After all, local water supplies are operated by people who are locally elected and whose families drink the water every day. However, they need common-

sense assistance in a form they can understand. Many small communities rely on volunteers or part-time administration to operate their local water supplies. Rural Water uses funding from Congress to provide every small community in all states the technical resources to provide safe and affordable water.

As unbelievable as it may sound, each Rural Water on-site technician makes ON-SITE contacts with over 300 water systems each year. All technicians (Circuit Riders) must be hands-on experts with "in-the-field" experience and are on the road and in the field every week. This is the only way to truly assist small community officials. All Rural Water technicians work for the communities free of charge. A typical on-site contact could include ensuring the water service is secure, discovering and repairing a faulty gas chlorination system, assisting a community to remove and replace the filtration media, training a new operator on how to run that particular treatment system, finding engineering and construction errors in a new sewer system, implementing a non-point pollution prevention plan, or solving lead and copper problems. Often the assistance saves thousands of dollars for the community and keeps the systems in long-term compliance with EPA rules. This effort is truly unique in the federal effort to protect the environment because it accomplishes progressive environmental protection with the support of the local community. Having local community support for environmental protection is essential to its long-term success. EPA's own office of enforcement has documented the success of this effort versus the alternative method of increasing fines and penalties.

In closing Madam Chair, I would urge the Committee to address the current underlying statutory authority for the water programs that presently don't provide the Secretary the needed flexibility or waiver authority in administering these funds to local communities. I have heard numerous situations in Arkansas where a small community is not eligible because they slightly exceeded the population or median income limit or needed to have a higher grant to loan ratio for affordability purposes. The ability to use grant dollars for the very low-income communities is critical. In some instances, communities cannot afford debt to service large loans especially in this economic climate. We would like to ask the Committee to explore providing the Secretary with this authority.

All communities have leaders. Some are elected; others are just concerned citizens that want to improve the quality of life in their community. Arkansas Rural Water with USDA as our partner — stand on the front line working daily with these leaders on a local level to ensure our rural communities are not left behind. No community can grow and improve without the sustaining resources of water and wastewater services. With your continued support and leadership, we will continue to prosper.

Thank you Madam Chair and Ranking Member Chambliss for allowing me to testify today. I would be happy to answers any questions that you may have at this time.

Statement of David P. Tenny,
President and CEO, National Alliance of Forest Owners
Senate Committee on Agriculture, Nutrition, and Forestry
Hearing on Overview of Farm Bill Energy Title Programs
July 21, 2010

I. Introduction

The National Alliance of Forest Owners (NAFO) is pleased to submit testimony to the Senate Committee on Agriculture, Nutrition, and Forestry on energy programs in the Farm Bill. NAFO is an organization of private forest owners committed to promoting Federal policies that protect the economic and environmental values of privately-owned forests at the national level. NAFO membership encompasses more than 75 million acres of private forestland in 47 states. NAFO was incorporated in March 2008 and has been working aggressively since to sustain the ecological, economic, and social values of forests and to assure an abundance of healthy and productive forest resources for present and future generations.

NAFO's members are the nation's leaders in sustainable forest stewardship and recognize the fundamental role they play in achieving the nation's renewable energy goals. They are well positioned to help our nation provide a domestic source of sustainable and carbon beneficial renewable energy.

II. Renewable Biomass Energy is Essential to Achieve Our Nation's Renewable Energy Goals

Our nation is at a critical juncture in the development of a long-term renewable energy policy. In order to meet our future renewable energy needs, we must optimize the potential of each viable renewable energy source as well as the potential of each region of the country to produce renewable energy. Working forests are well positioned

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to play a substantial role in helping our country achieve its renewable energy potential, particularly in regions where renewable energy sources such as wind and solar energy, are less viable. Forest biomass is a plentiful renewable energy feedstock in most areas of the country. If placed on a level playing field with other renewable energy sources, forest biomass will account for as much as one-third of the renewable energy contemplated in various renewable electricity standards pending before Congress. The continued development of commercially viable methods to produce cellulosic ethanol from woody biomass also promises to make significant contributions to America's transportation energy independence under the Renewable Fuels Standard.

Whether for the production of electricity, heat, transportation fuels or other energy applications, working forests are fundamental to our overall renewable energy policy. Our policy must be clear both in how it defines the role forest biomass will play and how it recognizes the economic and environmental benefits derived from using forest biomass.

A. Congress and the Administration must send clear signals to the marketplace encouraging the production of renewable biomass energy.

Congress and the Administration must send clear signals to the marketplace that renewable forest biomass energy will play a significant role in meeting our nation's renewable energy goals. These signals must promote biomass utilization through an inclusive definition of eligible biomass and appropriate accounting for biomass carbon emissions, establish a level playing field for biomass compared to other renewable energy sources, and encourage investments in key technologies and projects that utilize biomass. Historically, market opportunities for forest-derived biomass have been limited. Strong signals from policy makers will stimulate investment in the supply chain supporting biomass energy and help build infrastructure that is presently underdeveloped or fragmented compared to its potential. If given the right signals, the marketplace can develop this critical infrastructure, build jobs in rural communities, and

position our nation to produce more renewable energy in a sustainable and cost-effective manner.

B. Recent policy signals to the marketplace have created market confusion and must be corrected

Recent actions by Congress and the Environmental Protection Agency (EPA) have sent confusing signals to the marketplace that have discouraged investment in forest biomass energy and chilled the prospects for forest biomass in our national policy. The biomass definition contained in the Energy Investment and Security Act of 2007 (EISA) has foreclosed the use of significant amounts of biomass on up to 90% of private forestlands in the U.S. This definition has further softened the market outlook for investment in biofuels from forest biomass at a time when critical investments are needed in the commercialization of breakthrough conversion technologies. The EISA definition also creates confusion with respect to other biomass definitions, such as the definition of renewable biomass contained in the 2008 Farm Bill, which promote the utilization of forest biomass without arbitrary constraints.

Similarly, the EPA's sudden shift in the treatment of biomass energy carbon emissions under the Prevention of Significant Deterioration and Title V Greenhouse Gas Tailoring Rule (Tailoring Rule) has created significant confusion regarding the carbon benefits of biomass energy compared to fossil fuels. EPA's apparent ambivalence concerning the proper accounting of carbon from forest biomass combustion contrasts with already settled international conventions, U.S. greenhouse gas inventory data, and EPA's own statements recognizing that energy produced from forest biomass in countries, like the United States, where forests are a net carbon sink, does not increase carbon in the atmosphere. At the urging of Congress EPA has taken administrative action in its recent "Call for Information seeking input from the public on the appropriate accounting for carbon emissions from forest biomass combustion. This modest action has no clear connection to rulemaking, and it does not appear that it will resolve the matter before the rule takes effect on January 2, 2011. The uncertainty of both EPA's

position and the uncertain timeframe for revisiting that position is chilling investment in biomass energy production at the moment when such investment is needed in anticipation of Congressional action on renewable energy.

NAFO applauds the leadership and support of the Chair, Ranking member and other members of this Committee for their support for renewable biomass and its carbon benefits in their recent letter to Administrator Jackson regarding EPA's position in the Tailoring Rule.

NAFO also appreciates statements made by Secretary of Agriculture, Tom Vilsack with respect to the role that USDA will play in the review of the Tailoring Rule. NAFO looks forward to full USDA engagement with EPA and Congress to establish a strong record supporting the appropriate recognition of forest biomass energy emissions in the U.S. as carbon neutral under the Clean Air Act so long as national forest carbon stocks are stable or increasing.

III. Farm Bill Energy Programs have the Potential to Make a Significant Contribution to Achieving Our Nation's Renewable Energy Goals

A. The Farm Bill should continue research in breakthrough technologies and processes and invest in project development.

Advancements in renewable energy production, particularly biofuels production, begins with the development and commercialization of breakthrough technologies. Biomass research and development, such as the joint programs currently administered by USDA and DOE under the Energy Title of the Farm Bill, are essential to future commercialization efforts. The Forest Service's Forest Products Lab (FPL) is developing specialized capability at new state-of-the-art facilities to identify and test pathways for breakthrough technologies to move from bench to commercial scale. The FPL is positioned to make a significant contribution to the Department's renewable

energy research mission and should be utilized as a primary resource in technology development using all appropriate funding sources for research available to USDA.

The Energy Title is also an important resource in the development of our nation's renewable energy production infrastructure. During this period of soft financial markets, project developers often lack the capital needed to invest in commercial scale facilities. This capital shortage adds to the difficulty already experienced trying to meet the myriad other requirements for citing, permitting and sourcing biofuels facilities. Loan guarantee programs for project development and advanced biofuels production, such as provided under Sections 9003 and 9005 of the Energy Title, can provide timely assistance to project developers that can stimulate further private sector investment. Care should be given to ensure these programs are fully accessible to potential applicants within sound fiscal parameters.

B. Appropriate implementation of the Biomass Crop Assistance Program (BCAP), can support biomass production and infrastructure development in the biomass energy supply chain.

The forest biomass supply chain is relatively undeveloped and fragmented compared to its potential. Because forest biomass consists of heterogeneous material (e.g., branches, defective or broken logs, tops, and inferior trees) that typically must be collected from the woods and further processed by grinding or chipping, it is difficult and expensive to collect, process and transport. Historically, there have been limited market opportunities for forest-derived biomass. As a result, formal investments in supply chain operations and research supporting biomass have advanced extremely slowly[1]. The Biomass Crop Assistance Program's (BCAP) investment in the biomass supply chain through the Collection, Harvest, Storage, and Transportation (CHST) Matching Payment Program can be a valuable tool to help establish the infrastructure and associated jobs that will enable the biomass supply chain to mature and support the growing renewable energy sector.

NAFO members that participated in the 2009 CHST Program report that the program has in many instances helped accelerate the development of critical infrastructure and jobs in the biomass supply chain, thereby improving the ability of eligible material owners to produce and deliver forest biomass to conversion facilities. Based on these experiences, NAFO finds that by focusing on the portion of the supply chain nearest to the forest, CHST and crop assistance matching payments can achieve the purposes of the BCAP program and thereby make a valuable contribution to national renewable energy objectives. The manner by which USDA finalizes and implements the BCAP regulations will be critical to whether these goals ultimately are achieved.

The crop assistance portions of the BCAP Program should also encourage participate from a full spectrum of forest owners without differentiating the eligibility of forest owners to participate in the program based upon size or business model. This will stimulate bioenergy feedstock production where there is demand and encourage sustainable forest management. This approach will also foster innovations that may produce multiple feedstocks from forest lands while stimulating investments that increase long-term forest health and productivity.

IV. Congress Must Act for Renewable Forest Biomass to Make Its Full Contribution to Our Nation's Renewable Energy Goals

Notwithstanding the potential of Farm Bill programs to help private forests make significant contributions toward achieving our nation's renewable energy goals, policy must be fashioned that enables forest to achieve their full energy potential. Chief among these are establishing an inclusive definition of forest biomass and appropriately accounting for the carbon benefits of forest biomass energy. The result of inaction on these policies will be a loss of renewable energy potential and the loss of private forests to more economically competitive land uses. In order for renewable forest biomass energy to realize its full potential, the issues of what biomass qualifies as a renewable energy source and whether or not its GHG emissions will be regulated under the Clean

Air Act must be resolved. Alternatively, confusion and uncertainty will continue to frustrate the marketplace as forest owners, facility owners, and project developers curtail investments until market signals become clear. This will, in turn, forestall biomass energy development to the detriment of our energy security and environmental health.

A. Ensure the definition of biomass is inclusive and consistent across programs to capture the full benefit of biomass energy

Congress has had some difficulty achieving a consistent approach with respect to defining biomass. From the forest owner perspective, complicated definitions that increase the costs and complexity associated with producing a low value product like biomass impede the flow of biomass from the forest to the facility in direct contravention of renewable energy policy objectives. The 2008 Farm Bill has established the most straight-forward definition of biomass. According to Secretary of Agriculture, Tom Vilsack, a broad definition for renewable biomass, such as the Farm Bill definition, is a common sense and practical approach that enables biomass participation in emerging markets and provides economic options to help preserve working farms and forests on the landscape and the many public benefits they provide.

NAFO strongly supports this view and urges that, consistent with the expert opinion of USDA, Congress follow the lead of the 2008 Farm Bill and, with a few adjustments, establish one inclusive definition of biomass for use in all renewable energy and climate programs. The biomass definition must not impose restrictions that would foreclose market opportunities or introduce new federal regulation of private forest lands that overlays or is redundant of the existing legal framework or that creates new legal exposure.

Included for the record is a letter from Secretary Vilsack supporting the 2008 Farm Bill definition for qualifying renewable forest biomass. The sections that follow provide policy support for this approach.

i. A broad definition of qualifying biomass conserves working forests

Private, working forests depend upon reliable markets for continued viability. Over the past century, the U.S. has experienced sustained growth in its forest resources in concert with an ever-increasing demand for renewable forest products. This is attributable at its core to the fact that viable markets for forest products keep forestland economic compared to other uses, spurring investment in forest management and limiting forest conversion to other land uses that realize a greater economic return.[2] As numerous studies have shown, however, where the economic return for converting the land to development or other land uses exceeds the value for forest products, forest land is lost. It is essential that renewable energy policies help maintain the economic value of forest land and thus encourage forest maintenance and expansion.

Viable markets for biomass from forests not only help conserve forests as forests, but help improve overall forest health. Markets for forest thinnings help landowners fund silvicultural treatments to improve the health of their forests. These treatments can be ecologically beneficial because they, "typically reduce wildfire hazard, improve wildlife habitat, and/or increase forest resistance to pests and drought."[3]

ii. Definitions of qualifying biomass that prevent market access for biomass should be corrected

In contrast to the 2008 Farm Bill, the definition of qualifying renewable forest biomass in the EISA places confusing land use restrictions on significant acreages of private forestlands. These restrictions, including limits on naturally growing and regenerating forests, which make up more than 90 percent of our nation's non-federal forests, unnecessarily constrain the ability of forest biomass to contribute to achieving the ambitious Renewable Fuel Standard (RFS) mandate to produce 36 billion gallons of renewable fuels annually by 2022.[4]

Definitions of qualifying renewable energy feedstocks should provide a level playing field for market access across all feedstock sources and encompass the full range of forest biomass, including trees and other plants, forest residues (e.g., tops, branches, bark, etc.), interplantings of bioenergy crops, and byproducts of manufacturing. NAFO continues to recommend that the law be changed to allow for an inclusive definition of eligible feedstock from forests. The 2008 Farm Bill definition, which is similar to the House passed Waxman – Markey bill language, is an example of such a definition.

iii. Supply of biomass materials will meet the growing demand

Important to understanding the relationship between markets and sustainability is understanding how private landowners respond to new markets, such as bioenergy. A recent study by the Warnell School of Forestry at the University of Georgia, addresses this relationship. In *A Developing Bioenergy Market and its Implications on Forests and Forest Products Markets in the United States: Economic Considerations.* Forest economists document the relationship between decreased capacity and prices for pulp and paper and stumpage for other forest products and the corresponding reductions in investments in silvicultural treatments on private forestlands resulting in reduced forest productivity. In contrast, using economic modeling to predict landowner behavior in response to new bioenergy markets, the study concludes the following impact on supply:

> *Given the right market incentives, forest owners can significantly increase forest productivity – particularly in plantations in the Pacific Coast and Southern regions of the United States. Intensively managed timberlands can increase productivity [growth] by 150 percent, while less intensively managed timberlands could increase productivity by 75 percent*[5].

The Warnell study is significant in that it addresses a key economic concept frequently missed in analyses of the impacts of policies promoting increased biomass

utilization for energy – that supply responds to demand and that over time new market demand results in an abundance of supply. This has been the consistent experience of the forest products industry for over a century and accounts for why increased demand over time has produced significant growth in overall tree volume in the U.S.

Just as important as understanding landowner responses to market demand is an understanding of how market demand will develop. Experts at Forisk Consulting developed a screening methodology to predict likely capacity of biomass markets to produce energy based on publicly available information for announced facilities. Looking at the U.S. South as of June 2010, of the 136 wood-consuming, announced projects representing the potential for an additional 56.4 million tons/year of wood use by 2020, projects representing approximately 20.8 million tons/year are likely to be operational by 2020.[6] This provides a realistic projection of demand so that policy makers and forest owners can more accurately predict the impacts of projected new biomass energy capacity on the resource and other markets. It also further addresses the concerns of some that biomass markets will develop too quickly and ultimately outpace supply.

iv. Sustainable forestry in the U.S. is effectively achieved through an existing framework of laws, regulations, and agreements to ensure sound forest practices.

NAFO's members are committed to sustaining ecological, economic and social values over the long term by acting responsibly to assure an abundance of healthy and productive forest resources for present and future generations. Private forest landowners demonstrate sustainable forest management through a variety of established methods, including reforestation of harvested sites to maintain the forest cycle and use of best management practices ("BMPs") defined through voluntary and regulatory forestry programs and forest certification standards.[7]

There is considerable evidence that this complex framework of regulatory and non-regulatory requirements has substantially improved the environmental outcomes of forest management, and will continue to do so in the future. Because working forests are an important potential source of renewable biomass, some have expressed concerns that increased demand for biomass might result in adverse environmental effects. However, while it is difficult to speculate beyond broad generalizations, the removal of additional biomass from working forests is not likely to have negative environmental impacts and, in many instances, will be beneficial.[8] A robust yet flexible array of tools, in the form of federal, state and local laws, regulations, programs and best management practices (BMPs) have measurably improved the environmental performance of forest operations in the United States, and can be expected to continue to do so going forward.[9]

v. Mechanisms to review the performance of energy programs in meeting our nation's goals and maintaining sustainable forest management across the landscape are appropriate.

NAFO seeks to ensure that taxpayer dollars are invested wisely and appropriately, and periodic reviews of federal programs help ensure that goal is met. Performance measures and reviews of the effectiveness of federal renewable energy programs should rely on existing tools and data, such as the Forest Inventory Analysis, and should recognize the effectiveness of the existing framework of laws, regulations, and agreements in conserving forests and their environmental benefits. New and redundant review and compliance programs applied on top of the existing compliance framework will become too burdensome and costly and will discourage participation in renewable energy programs. In many cases they will hasten the loss of forest land to competing, more economic uses, thereby frustrating sustainability objectives in federal policy.

B. Proper accounting for the carbon benefits of biomass energy in legislation and other federal policy

Federal and international policies have long recognized the carbon benefits of combusting wood biomass for energy in countries where net forest resources are stable or increasing. This recognition has given rise to the treatment of biomass energy in such countries as "carbon neutral" with respect to its impact on total carbon in the atmosphere.

Recent challenges to the conventional carbon accounting practices used throughout the world have raised questions in U.S. policy that require swift attention by Congress and the Administration. Understanding the nature of the forest carbon cycle and the importance of accounting for that cycle in an appropriate manner is necessary for policy makers to determine the carbon benefits of forest biomass energy in U.S. renewable energy policy.

i. EPA's sudden change in the treatment of biomass energy emissions in the Tailoring Rule ignores both U.S. and international conventions and must be corrected.

EPA recently broke from its long-standing policy, based on its own science, that biomass energy does not increase carbon in the atmosphere if harvested sustainably.[10] The EPA's final Tailoring Rule unexpectedly treated GHG emissions from the combustion of biomass the same as such emissions from the combustion of fossil fuels. EPA's action was a sudden shift in direction that appeared to ignore the treatment of biomass energy cited in the draft rule. It was surprising that EPA would place renewable biomass, which plays such a fundamental role in moving our nation toward a more reliable supply of domestic, low carbon renewable energy, in the same category as coal, oil and other non-renewable, high carbon fuel sources.

The confusion created by the EPA's Tailoring Rule is a significant and unnecessary step backward and puts the biomass community at risk of erroneously being cast as part of the carbon problem rather than part of the solution. While EPA last week issued a "Call for Information" on this issue, an administrative action with no connection to rulemaking, it is unclear whether the agency will move quickly enough to resolve the matter before the rule takes effect in January. The EPA must act promptly so the biomass community can resume forward progress rather than unnecessarily spinning its wheels over an already settled area of policy. Included for the record is a letter sent from 163 organizations to EPA Administrator Jackson urging EPA to not regulate biogenic carbon emissions under the Clean Air Act.

As stated previously, NAFO appreciates the attention this committee has already given to EPA's position in the Tailoring Rule. NAFO also appreciates the attention of the Department of Agriculture to the EPA's actions and the commitment of Secretary of Agriculture, Tom Vilsack, to "ensure that rules designed to reduce the buildup of greenhouse gases in the atmosphere also encourage the development and utilization of biomass energy resources and avoid unnecessary regulatory impediments and permitting requirements."

The sections that follow explain the elements of the forest carbon cycle and its relationship to renewable energy to assist policy makers in crafting sound policy founded on established scientific principles.

ii. The forest carbon cycle is ongoing with no definable beginning or end

Photosynthesis is the ongoing process of converting radiant energy from the sun and CO_2 from the air into the chemical energy of plant tissue.[11] Through photosynthesis, carbon in atmospheric CO_2 becomes carbon in plant tissue. When biomass is burned or otherwise oxidized, the chemical energy is released and the CO_2 is placed back into the atmosphere, completing a natural carbon cycle. As long as this cycle is in balance, the cycle has a net zero impact on the carbon in the atmosphere. As this is an ongoing

natural process, there is no basis to define a beginning or end; the process continues and the measurement that should be considered is the overall balance at regular intervals.

This biomass carbon cycle differentiates the carbon in biomass from the carbon in fossil fuels. Fossil fuels contain carbon that has been out of the atmosphere for millions of years. When fossil fuels are burned, therefore, they put carbon in the atmosphere that is in addition to what has been cycling between the atmosphere and the earth, causing the amounts of CO_2 in the atmosphere to increase. Indeed, the primary source of increased CO_2 in the atmosphere since pre-industrial times is fossil fuel combustion.[12]

ii. Net carbon emissions from combusting forest biomass for energy must be measured at the appropriate scale.

A critical element in establishing appropriate policies for the use of renewable energy is assessing the ongoing biomass carbon cycle at the appropriate scale. For example, assessing the biomass carbon cycle at the individual plot level ignores the removal of carbon from the atmosphere by trees growing on other plots that will be harvested in future years. By ignoring the ongoing landscape-scale dynamics of the carbon cycle, a plot scale analysis imposes unnatural, and unnecessary, constrictions on the assessment.

If wood-producing land is being re-grown to pre-harvest carbon stocks before it is harvested again, then year-after-year the atmosphere sees a net carbon "emission" of zero across the wood-producing region because the "emissions" from plots harvested this year are offset by the uptake occurring in new growth on other plots that will be harvested in the future. Assessment limited to a single plot results in a large emission occurring at the time of harvest with slow removal of the emitted carbon from the atmosphere over time as the trees re-grow on the plot. This distorts the forest carbon

cycle by focusing at a scale that is too narrow and that ignores forest dynamics across the landscape.

iii. The total forested area in the U.S. is stable and forest carbon stocks are increasing.

There are currently 755 million acres of forestland in the United States, nearly 90 percent is naturally regenerated and 57 percent is privately-owned. 38 percent of the land area is owned by non-industrial, private landowners and 20 percent is owned by corporate landowners. Over the past 100 years forest acreage in the United States has remained relatively stable, and over the past 50 years total growing stock has risen 49 percent and growth consistently exceeds removals.[13] There is every expectation that improved forest management will result in improved growth rates.

As forest carbon stocks in the U.S. continue to grow, the biomass carbon cycle in the U.S. is continuing to accomplish net removals of CO2 from the atmosphere.[14] Carbon stocks on industry-owned timberland, for example, are stable, reflecting the effects of regeneration and re-growth that occurs under sustainable forest management practices.[15] The data clearly indicate that in the United States, the biomass carbon cycle is accomplishing net removals of carbon from the atmosphere. In other words, the U.S. forest biomass carbon cycle is in surplus and not contributing to increased atmospheric carbon.

In the real world, carbon stock status is governed by rates of harvesting, growth and mortality at the larger spatial scale. Carbon stock depletions as a result of harvesting specific plots are offset by carbon accumulation on stands that are not disturbed. Thus as noted previously, the carbon stocks represented by forest land in the United States are increasing while supporting ongoing harvesting.

iv. The U.S. is a world leader in sustainable forest practices.

As explained previously, private forestry operations are governed by a complex set of laws, regulations, and non-regulatory policies at the federal, state and local level in addition to voluntary, third-party certifications. The resulting framework has developed over many years and is now mature and adapted to resources conditions and needs of individual jurisdictions.[16] The effectiveness of this framework has made the United States a world leader in sustainable forest practices.

Private working forests depend upon reliable markets for continued viability. The U.S. has experienced sustained growth in its forest resources in concert with an ever-increasing demand for renewable forest products. This is attributable at its core to the fact that viable markets for forest products keep forestland economic compared to other uses, spurring investment in forest management and limiting forest conversion to other land uses that realize a greater economic return.[17] When existing markets for their products are strong, or when new markets like energy emerge, forest owners are able to keep their land forested by investing in tree planting and forest health treatments which in turn keeps their forests economically competitive with other uses.

v. Using forest biomass to produce renewable fuel has significant carbon benefits.

In evaluating the GHG emissions associated with fuels, a lifecycle analysis ("LCA") incorporates all steps in a "product system" to evaluate broader environmental impacts of products and processes. Work by the Consortium for Research on Renewable Industrial Materials, for example, has documented how managed forests can produce sustained, overall net GHG emission *reductions* when carbon is stored in enduring harvested wood products and/or when harvested wood products are substituted for products with higher energy/carbon footprints.[18] Similarly, the U.S. Department of Energy recognizes the GHG emissions reductions that would result from

the use of cellulosic biofuels, stating that, "Cellulosic ethanol use could reduce GHGs by as much as 86%."[19]

EPA has also recognized the beneficial use of biomass to create energy that does not increase carbon in the atmosphere when it is used sustainably.[20] International organizations have also recognized this principle, most notably the Intergovernmental Panel on Climate Change[21].

V. Conclusion

Energy from renewable forest biomass is sustainable, carbon beneficial, domestic, and necessary for the U.S. to reach its renewable energy goals. While existing Farm Bill programs, if appropriately administered, can be effective in promoting biomass energy from private forests, the intent of these programs can only be accomplished if federal policy includes an inclusive definition of qualifying forest biomass and appropriately recognizes the carbon benefits of forest biomass energy. This will require decisive action by Congress and the cooperation of the EPA, the USDA and other federal policy makers.

Absent decisive action on the part of Congress and/or the Administration, the marketplace for forest biomass energy will stagnate as producers and project developers wait for clear market signals. This stagnation will, in turn, reduce overall renewable energy capacity, force more forest land into alternative land uses that are more economically competitive, and frustrate the federal policy of sustainably producing a reliable supply of renewable energy to meet our growing needs.

Congress and/or the Administration must act quickly and decisively to establish an inclusive definition of qualifying forest biomass across energy and climate change policies and to appropriately recognize the carbon benefits of forest biomass energy. By doing so, they will significantly increase our overall renewable energy supply, help

sustain working forests across the landscape, and contribute to economic revitalization and job growth in rural America.

Respectfully Submitted,

David P. Tenny
President and CEO
National Alliance of Forest Owners

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Statement of
Dallas Tonsager
Under Secretary for Rural Development
USDA

Testimony before the Senate Committee on Agriculture, Nutrition and Forestry

July 21, 2010

Madam Chairman, Senator Chambliss, and Members of the Committee, thank you for this opportunity to discuss Titles VI and IX of the Food, Conservation, and Energy Act of 2008 (2008 Farm Bill).

I would like at the outset to acknowledge and express my appreciation for the close working relationship we have enjoyed with you over the past year and a half. I know that all of us here share a deep commitment to rural America. All of us understand the unique challenges faced by rural communities. We recognize, as I know you do as well, the remarkable new opportunities for rural America now on the horizon, and we look forward to a continued partnership with you to bring those opportunities to fruition.

Rural America is the nation's heartland. It comprises three quarters of the nation's land area and is home to more than 50 million people. Rural America is our farms and forests; our mountains, deserts, and plains; our small towns and smaller cities. Agriculture has historically been the iconic industry, but today more than 95 percent of rural income is earned off the farm, with manufacturing, mining, forestry, tourism, and services sustaining employment and driving growth in most rural counties.

USDA Rural Development is committed to the future of these rural communities. Rural America includes some of the nation's most dynamic, rapidly growing areas. But the aggregate statistics tell another story. Rural America on average is older and less educated than the nation as a whole, with an average per capital income approximately $11,000 below the urban and suburban average. Unemployment and poverty rates are higher. Ninety percent of the nation's persistent poverty counties are rural.

Three generations after the mechanization of agriculture and the onset of mass farm consolidation, too many rural communities have yet to find the diversified economic base to replace the jobs that have been lost. As a consequence, rural communities continue to lose population due to outmigration as young people question the prospects for finding employment and raising families in rural areas. Far too many rural communities remain unable to offer economic opportunity to their young people, especially highly educated young people. Reversing that dynamic and transforming rural America for the next century is our mission.

A critical priority for the Obama Administration and USDA is renewable energy. For environmental, economic, and national security reasons alike, America needs to diversify our fuel supply, reduce our dependence on fossil fuels, reduce our carbon footprint, and develop our abundant renewable energy resources. We are committed to these objectives, and we are grateful to the Congress for its vision in the 2002 and 2008 Farm Bills, which give USDA the tools to support this vital national effort.

Title VI

Section 6110: Broadband Loan Program

Since enactment of the American Recovery and Reinvestment Act of 2009 (Recovery Act), RD has been focused on fully utilizing the Recovery Act funding the bring broadband service to rural America. To date, RD has awarded nearly $1.5 billion to construct broadband projects in 37 states and one territory. The Recovery Act provided an opportunity to make significant investments to bring broadband to rural communities and has drawn new interest from across the country. We have studied the applications and awards under the Recovery Act Broadband Program in order to improve the pending new regulations for the Farm Bill program. The two programs are not directly comparable: the Farm Bill program is loan-only, while the Recovery Act provided the flexibility to provide a competitively awarded mix of loans and grants. Nonetheless, we believe that there will be valuable insights to incorporate into the final Broadband Loan Program rule, which we now anticipate publishing by the end of this calendar year.

Section: 6022: Rural Microentrepreneur Assistance Program (RMAP)

The RMAP program is one of the most exciting new initiatives from the 2008 Farm Bill. It provides funding through community based intermediary institutions to make small and very small loans to microentrepreneurs. This holds great promise for targeting assistance to startup and home based ventures, which are often especially important in rural communities that may lack other employment opportunities. I would also note that there is a clear synergy between RMAP and the rural broadband program, which will give even the smallest rural entrepreneur access to regional, national, and even global markets.

The Interim Rule to implement RMAP was published in the Federal Register on May 28, 2010. A Notice of Funding Availability (NOFA) was published on June 3. A total of $45.1 million is available in FY 2010 for loans, grants, and technical assistance. The initial application window closed July 16, and we are beginning to evaluate the responses. We anticipate announcing initial awards by late summer.

Section 6202: Value-Added Producer Grant Program (VAPG)

The VAPG program is a tool for enhancing producers' incomes and encouraging wealth creation in rural America. The 2008 Farm Bill made significant changes related to minority and socially disadvantaged producers and mid-tier value chains. These issues are complex and, in response to comments from stakeholders and our own internal analysis, the initial FY 2009 NOFA implementing this program was withdrawn. A revised NOFA for Fiscal Year 2009 was published on September 1, 2009, with the application window closing on November 30. Rural Development received 550 applications in response to the FY 2009 NOFA and, on June 3, 2010, we announced approximately $22.5 million in funding for 195 projects.

To implement new permanent regulations for the VAPG program, USDA published a proposed rule on May 28, 2010. The public comment period closed on June 28, 2010. We anticipate publication of an interim final rule in the Fall and publication of the FY 2010 NOFA shortly thereafter.

Section 6002: SEARCH Grants (Special Evaluation Assistance for Rural Communities and Households Program)

The SEARCH Grant program is an important enhancement to the Rural Development Water and Wastewater Program. It will provide pre-development planning grants for feasibility studies, design assistance, and technical assistance to financially distressed rural communities of 2,500 or fewer inhabitants for water and waste disposal projects. This will remove a significant barrier to many of our neediest communities as they seek to provide essential community services to their residents. A Final Rule for the SEARCH Grant Program was published on June 24, 2010, although no funds are available in the current fiscal year. SEARCH Grants will be available in FY 2011 if Congress provides funding.

Title IX

Rural Development administers five Title IX energy programs from the 2008 Farm Bill. Before turning to them in detail, however, it should be noted that Rural Development's support for renewable energy extends well beyond the "9000 series" programs. The commitment to renewable energy is agency-wide.

For example, most of Rural Development's Title VI business programs have supported renewable energy investments over the years. These include the Business and Industry Guaranteed Loan program (B&I), the Value-Added Producer Grant program (VAPG), the Rural Business Opportunity Grant program (RBOG), the Rural Business Enterprise Grant programs (RBEG), and the Rural Economic Development Loan and Grant program (REDLG). Similarly, the Rural Utilities Service has financed wind, solar and geothermal investments by rural electric cooperatives.

Four of the five Rural Development Title IX programs are currently being implemented. Rural Development is working to present a consistent source of funding to bolster lending and project confidence for these programs. In total, the Section 9003 and 9007 programs awarded funding for 1,559 projects during Fiscal Year 2009, which USDA estimates would create or save approximately 10.3 million KWH's of energy. This would equate to 1.76 million barrels of crude oil (5.8 million Btu's per barrel of oil), or enough energy to provide electricity for 250,815 homes.

Section 9003 -- Biorefinery Assistance Program.

The Biorefinery Assistance Program provides loan guarantees to viable commercial-scale facilities to develop new and emerging technologies for advanced biofuels. Eligible entities include Indian tribes, State or local governments, corporations, farmer co-ops, agricultural producer associations, higher education institutions, rural electric co-ops, public power entities, or consortiums of any of the above.

Two Section 9003 project investments involving different technologies have been announced to date and one project remains under consideration. The two projects which have been announced are:

- Range Fuels, Inc. received approval of an $80 million guaranteed loan on January 16, 2009. The loan closed on February 10, 2010. This is a cellulosic ethanol project.

- Sapphire Energy received approval for a $54.5 million guaranteed loan on December 3, 2009. The loan is expected to close September 2010.

The Fiscal Year 2010 NOFA published on May 6, 2010, provides up to $150 million in budget authority for the Biorefinery Assistance Program to support loan guarantees. The deadline for submittal of applications for FY 2010 funding is August 4, 2010.

The Notice of Proposed Rulemaking was published April 16, 2010 and allowed 60 days for public comment. A total of 350 individual comments were submitted by 39 commentors. These are currently being reviewed by the agency.

The pace of applications for the Section 9003 program has clearly been affected by the recent recession, volatility in world oil prices, and a high level of caution by lenders in the wake of the credit crisis. The level of interest among potential applicants remains high, and we expect volume to increase in the year ahead as the economic recovery gathers strength.

Section 9004 -- Repowering Assistance Payments.

The Repowering Assistance Program provides payments to biorefineries that use fossil fuels to produce heat and power to replace the fossil fuels with renewable biomass. To be eligible, the biorefineries must have been in existence as of June 18, 2008, and applicants must demonstrate the economic, technical, and environmental feasibility of the proposed biomass system.

Five projects were selected for awards totaling $13,269,383. Of the projects selected, one applicant has accepted the contract for $1,955,272 and is proceeding with construction.

Congress provided mandatory budget authority of $35 million until expended. In FY 2009, the program was allotted $20 million; the remaining funds were to be spread out to provide support in subsequent years, and to allow the public to participate in the regulation formulation. The funding awarded but not accepted will be available under the Extension Notice of Funding Availability for Fiscal Year 2009. The extension notice was published on March 12, 2009, and the application window closed on June 15, 2010. Three additional applications were received for consideration. Another $8 million in budget authority is made available for the Notice of Funding Availability for FY 2010.

The Notice of Proposed Rulemaking was published April 16, 2010, and allowed 60 days for public comment. Eight commentors submitted 30 individual comments, which are currently being reviewed by the Agency.

Section 9005 – Advanced Biofuel Producer Payments.

The Section 9005 Advanced Biofuel Producer Payment program provides payments to producers to support and expand production of advanced biofuels refined from sources other than corn kernel starch. To be eligible, producers must enter into a contract with USDA Rural Development for advanced biofuels production and submit records to document such production.

Determination of Payments as per the Notice of Contract Proposals: The Section 9005 program

is designed to favor small producers. Five percent of the funds are allocated for payment to producers for production of advanced biofuel at facilities having an annual refining capacity of over 150,000,000 gallons. Ninety-five percent of the funds will be allocated for small producers (less than 150,000,000 gallons). In Fiscal Year 2009, 156 producers applied and 141 were determined eligible and awarded $14,868,472in December 2009.

Producer Payments to:	Number of Producers	Awarded 12/09 Amount of Payments	Percentage of Payment
BIODIESEL PRODUCERS	80	6,472,996	0.44
ANAEROBIC DIGESTERS	41	294,227	0.02
NON-CORN KERNEL STARCH ETHANOL PRODUCERS	16	7,355,681	0.50
WOODY BIOMASS	4	735,568	0.04
Total	**141**	**$14,868,472**	**1.00**

Congress provided mandatory budget authority to this program as follows: $55 million for FY 2009 and $55 million for FY 2010. In FY 2009, the program was allotted $30 million. Approximately $15 million remains in allocated 2009 budget authority, and is available under the Extension Notice of Contract Proposals for FY 2009. The remaining FY 2009 funding of $25 million, and $15 million of funding from the FY 2010 allocation, which totals $40 million in budget authority is available for this program in FY 2010.

The Extension Notice of Contract Proposals for FY 2009 request window closed June 1, 2010, and allowed 60 days for public comment. Approximately 1,100 public comments were received. These are currently being reviewed by the agency.

Section 9007 – Rural Energy for America Program (REAP)

The Rural Energy for America Program – known formerly as the Section 9006 "Renewable Energy Systems and Energy Efficiency Improvements Program" -- provides loan guarantees and grants to agricultural producers and rural small businesses to purchase and install renewable energy systems and make energy-efficiency improvements.

Renewable energy systems include those that generate energy from wind, solar, biomass, geothermal sources, or that produce hydrogen from biomass or water using renewable energy, and ocean and hydroelectric source technologies. Energy-efficiency projects typically involve installing or upgrading equipment to significantly reduce energy use. Energy audits and feasibility studies are also eligible for assistance.

Eligible applicants for energy audits include State, tribe, or local governments; land-grant colleges and universities; rural electric cooperatives; and public power entities. Eligible applicants for feasibility studies include rural small businesses and agricultural producers.

REAP Performance for FY 2009

# Projects	Funding Type	Grant Only	G-Loan Only	Combo Grant	Combo Loan
904	Grants Less Than $20 Thousand	$ 12,040,048			
199	Grants Greater than $20,000	$ 11,167,222			
380	Combinations			$ 27,774,710.25	$ 49,007,390.50
2	Guaranteed Loan Only		$ 8,451,638		
22	EA/REDA	$ 2,173,631.00			
50	Feasibility Study	$ 1,244,600.00			
1,557	**TOTAL**	**$ 26,625,501.00**	**$ 8,451,638.00**	**$ 27,774,710.25**	**$ 49,007,390.50**

# Projects	Category	Sub-Category	Grant	G-Loan
49	BIOMASS Total		$ 7,431,859	$ 17,372,569
	14	ANAEROBIC DIGESTER	$ 4,117,368	$ 6,619,198
	7	BIODIESEL PRODUCTION	$ 674,096	$ 1,341,692
	5	SOLID FUEL PRODUCTION	$ 843,936	$754,679
	23	THERMAL CONVERSION	$ 1,796,459	$ 8,657,000
1,099	ENERGY EFFICIENCY		$ 27,857,621	$ 18,252,122
47	GEOTHERMAL		$ 881,279	$ 229,599
4	HYBRID		$ 180,916	$ 133,996
4	HYDROPOWER		$ 464,432	$ 600,000
166	SOLAR		$ 5,994,685	$ 3,399,253
116	WIND		$ 8,171,188	$ 17,471,490
1,485	**Subtotal**		**$ 50,981,980**	**$ 57,459,029**
22	EA/REDA		$ 2,173,631	
50	Feasibility Study		$ 1,244,600	
1,557	**TOTAL**		**$ 54,400,211**	**$ 57,459,029**

For FY 2010, approximately 75 percent of Rural Energy for America Program (REAP) funds are being allocated to the States. The total amount of appropriated and carry over funds for FY 2010 is $99,371,998 ($39.34 million in discretionary, $60 million in mandatory, and $31,998 carryover from FY 2009). Applications are currently under consideration and awards are being made both at the State level and for the National Reserve. The following charts identify the allocations and projected timelines for FY 2010.

REAP Allocation FY 2010

Energy Audit & REDA	$2,400,000
Feasibility Study	$9,694,000
Grants of $20,000 or less (allocated to the States)	$19,865,706
State Allocation	$55,636,292
National Office REAP Reserve	$11,776,000

Total	**$99,371,998**

REAP Timeline FY 2010

REAP - Type of Notice	Date of Publication in Federal Register
Notice of Funding Availability – Rural Energy for America Renewable Energy Systems and Energy Efficiency Improvements Loan Guarantee and Grants FY 2010	April 26, 2010
Notice of Funding Availability – REAP Energy Audits and Renewable Energy Development Assistance Grants	Anticipated May 27, 2010
Notice of Funding Availability – REAP Feasibility Studies Grants	Draft Pending
Notice of Proposed Rulemaking -- Rural Energy for America RenewableEnergy Systems and Energy Efficiency Improvements Loan Guarantee and Grants FY 2010	Draft Pending
Notice of Proposed Rulemaking -- – REAP Energy Audits and Renewable Energy Development Assistance Grants	Draft Pending
Notice of Proposed Rulemaking – REAP Feasibility Studies Grants	Draft Pending

Looking Ahead

As we look ahead, we also look forward to your continued counsel as we seek to apply the lessons learned from the 2008 Farm Bill to the evolution of our program "toolkit" in the future.

We would also be eager to discuss with you options for streamlining and rationalizing program delivery. Rural Development administers over 40 programs. Many of them are small and overlapping. This is a complex issue. We understand that Members often have very targeted objectives in mind in crafting program authorities, but there may well be significant administrative efficiencies to be gained through consolidation. We would of course wish to

ensure that any reorganization preserves and enhances our outreach and service to rural communities.

Another important initiative for the Obama Administration is looking at how communities can work together on a regiononal basiss. We are encouraged that the 2011 budget proposed to explore smart regional approaches within the current Farm Bill programs, and we look forward to continuing this discussion as we move towards the 2012 Farm Bill. Broadband, renewable energy, the smart grid, transportation, water and wastewater services, and many essential community services such as hospitals and emergency services are inherently regional in character. It is clear that a holistic multi-community and multi-county approach leverages resources and rationalizes planning, and we look forward to working with you to find ways to move rural communities in this direction.

With regard to renewable energy, it is clear that the difficult economic environment of the last two years has inhibited investment in new and emerging technologies. It is also clear that investors' calculations are affected by continuing uncertainty about the shape of national energy policy, especially with regard to greenhouse gas emissions.

Finally, I expect that the definition of rural will be as contentious in the next Farm Bill as it was in the last. We have in draft a report to the Congress on this question and will submit it to you in the coming months. It is easy to describe the difficulties with the existing definitions of rural; the challenge is to identify a different definitional scheme that does not create as many problems as it solves. This is a difficult question, as this subcommittee fully appreciates, and I know that we will have extended discussions with you as we move forward.

These are sensitive questions on which we want to work collaboratively with stakeholders and the Congress before proposing significant changes. I am glad that the Committee is beginning this discussion now, in order to provide time for thoughtful consideration. I know that you share our commitment to improving our service to rural America, and I welcome your thoughts, comments, and questions as we begin this discussion. Thank you.

My name is Eric Zuber, a dairy farmer from western New York. It is an honor and privilege to be with you today to discuss the opportunity the USDA energy programs have given my family's farm in the development and operation of our methane digester. I would like to thank Senator Gillibrand for her efforts to address the milk price crisis that all dairy farmers have endured for the last 18 months. I was present at the hearing that Senator Gillibrand presided over this spring in Batavia, NY. The milk price is slowly rebounding but we have a big hole to dig out of. The value of New York's agricultural products in 2009 was around $4.4 billion, and dairy was the largest single sector: even with the depressed milk price, sales were over $2.3 billion. New York remains the third largest dairy producing state in the U.S.

A quick history of our farm: we really began in 1937. My Dad was 13 years old when his father died. He had nine cows in an old barn that was less than 12 miles from what is now the epicenter of Rochester, New York. Since then we have moved the milking operation twice to a more appropriate location. Today we have over 1750 milking cows, 1500 head of young stock and crop 3000 acres. We employ 26 people and produce 36 million pounds of milk a year and inject six million dollars into the local economy.

We became interested in building a methane digester because of the need for animal bedding. We had been buying sawdust and our sawdust needs have been growing to over $200,000.00 per year. When the heating oil price goes up the sawdust suppliers sell the sawdust for fire logs so sawdust became expensive, scarce or unavailable. In 2007 Mark Moser of RCM International LLC, a methane digester designer, contacted me about the digester project. NYSERDA, the New York State energy agency, had come up with a grant program that made digesters attractive for New York State. Mark Moser's people at RCM started doing some proposals and I ran some proformas on what would make a viable project. It became apparent there was no return on investment without added funding. When USDA announced their REAP, or Rural Energy for America Program (Farm Bill Section 9007), which provides competitive grants of up to 25% of total project cost for renewable energy projects, , we realized that the additional grant funding would make it a viable project. Angela McEliece of RCM did the grant writing and we supplied the information to get the necessary funds of $413,058 secured in 2008.

The NYSERDA grant is mostly production based and we had to secure a bridge loan through Farm Credit to cover the first three years of production. By the time the grants were secured and the approval from Farm Credit came through it was early 2009, and the low milk prices hit home pretty hard. It became questionable to do the project under these financial circumstances. After months of consultation, and with our long term commitment to our dairy business, in early spring of 2009 we decided to go ahead with the project. There were contractors looking for work and we thought there might be some low cost opportunities for construction in this environment. Thomas Hauryski and Titus Falkenburg from USDA Rural Development came out and we signed the paperwork. Titus Falkenburg, RD's State Engineer, was our point person that we consulted with and sent monthly reports and expense statements to. We broke ground in April of 2009. The reimbursement for 25% of the project went extremely well. After the monthly expenses were submitted we would get reimbursed in 2-3 weeks. When we started pouring concrete Titus would make visual inspections in a timely manner. As for the rest of the project itself we felt it crucial to keep the project on schedule. Our goal was to start generating methane before the weather got extremely cold. It would be necessary to heat the 1.5 million gallons of manure to 100 degrees Fahrenheit and we felt if we could not get it going by winter the project would be waylaid till spring.
The most challenging part of the project by far, was obtaining approval for an interconnect agreement from the utility company, National Grid. There was a conflict with the interpretation of the New York net metering law between National Grid, the electric utility, and RCM International LLC and its

subcontractor Martin Machinery, the company that supplied the electric generator. New York net metering law until very recently capped generating capacity for on-farm digesters at 500 kilowatts; that cap was recently raised to 1,000 kilowatts, or 1 megawatt. Martin Machinery originally was supplying a gas engine only capable of 450 kW but putting a bigger generator on with heavier windings, which would add longevity and stability to the generator. This generator was theoretically capable of 570 kW even though it did not have the horsepower to do so. NYSEG, another utility in New York State, was allowing this generator to be used in this configuration, but National Grid insisted that we downsize the generator which we eventually did to a 380 kW generator because that was the next available size. With this being done, numerous upgrades needed to be done to the lines so we could interconnect. I suspect the cost was in the $500,000 range. As long as we were within the net metering law then the utility company would have to foot the bill. The upgrades were eventually done and we began producing power on 12/27/2009. At the same time we began separating solids for bedding from the digested manure with a fan screw separator. We soon learned we would need a second separator so it was added shortly thereafter.

Now that the digester is operating at steady state, we have applied for funding from another 2008 Farm Bill Title IX program, Section 9005, payments for producers of advanced biofuels. Any payments we receive from this program will help us pay the capital and operating costs of the digester and generator.

Looking back at the project and where we are now I would like to make the following summations.

- There seems to be a fair amount of gas in the manure, enough to generate two times the amount of power we use at the farm.

- One of the biggest obstacles was scrubbing the gas. The process makes hydrogen sulfide and that needs to be taken out of the gas to extend the life of the engine and reduce operating costs. The technology for doing this seems to be in the infancy stage and needs to be further developed.

- There is a definite odor reduction in the liquid we are spreading out of the digester. We spread ¾ of a million gallons of it on ground behind a campground and the phone never rang.

- We are getting enough heat off the engine to heat all the water for the milk house and heat two houses for the winter.

- Lastly, we still seem to have issues with National Grid. At certain times when we get over 320 kW of power being produced and the demand is low on the line; it appears that we are driving the voltage too high on the grid, although we are well below 500 kW. The line upgrades apparently are not yet sufficient. I see the real problem is that the grid was never designed to take power backwards. The systems in rural America are basically old. There needs to be infrastructure investment if this type of technology is going to become commonplace. I think in the long run if it is possible to purify this gas it would be more efficient to put it in a gas pipeline rather than to generate power at the farm. There needs to be some studies done to determine where the biogas is and the most efficient way to get the energy back to the end user. If on-farm electric generation is going to be successful you will have to find a way to get incentives to the utility companies to make the improvements and accept this power. In all we continue to

learn about anaerobic digesters. We are doing the things we set out to do and the deciding factor of how successful we will be is our operating and maintenance costs as we go forward.

Thank you,

Eric Zuber

DOCUMENTS SUBMITTED FOR THE RECORD

JULY 21, 2010

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United States Senate

June 22, 2010

The Honorable Thomas J. Vilsack, Secretary
U.S. Department of Agriculture
1400 Independence Avenue, S.W.
Washington, DC 20250-0002

Dear Mr. Secretary:

I am writing regarding the Interim Final Rule on the Rural Microenterprise Assistance Program (RMAP) published May 28, 2010. As you know, I worked to make the RMAP part of the Food, Conservation, and Energy Act, P.L. 110-246 (2008 Farm Bill); and I have since worked to make sure the RMAP is adequately implemented and funded. During this period, I have greatly appreciated the time and attention you have devoted to this important program.

Now, though, I am concerned by the direction of the Interim Final Rule. A number of requirements and limitations contained in the rule are nowhere to be found in the authorizing statute; specific activities authorized within the law have been shortchanged; and there is at least one important misinterpretation of the statute.

The overall purpose of the RMAP legislation is to provide training and technical assistance and low-cost capital to rural micro-entrepreneurs. This is to be accomplished through capacity-building grants aimed at microbusinesses and organizations having the potential to provide this assistance, as well as through loans to intermediary organizations and technical assistance grants to be employed to businesses in need of technical and financial assistance.

Training and technical assistance is authorized under Section 379E(b)(4) of the Act, yet I do not believe the Interim Final Rule reflects the importance of this training. Through ranking criteria, the rule penalizes organizations with training programs focusing on providing assistance to businesses and entrepreneurs for whom credit is not an issue, but who still need assistance in writing a business plan, marketing, developing a website, or managing cash flow. Although I raised this matter with the U.S. Department of Agriculture through my Questions Submitted for the Record during your March 3, 2010, hearing before the Agriculture Appropriations Subcommittee (copy enclosed), I am disappointed the Interim Final Rule does not adequately address my concerns.

The rule also contains a number of provisions which, taken together, would increase the cost of the program to end users and would limit the availability of RMAP to smaller organizations. Specifically, the rule:

- Sets the interest rate at a level higher than required by the law;
- Sets the grant rate at a substantially lower level than authorized in the law;

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- Requires interest income to be used exclusively for loan making, which is not part of the law. This provision, together with limitations on grant assistance, reduces the ability of organizations to provide essential technical assistance and training to microbusinesses; and
- Simultaneously limits federal assistance to 75 percent of the total loan while requiring a business to meet a "credit elsewhere" test. Neither requirement is authorized.

Unfortunately, the Interim Final Rule's higher interest rates, lower grant levels, and unauthorized limitations and matching requirements will limit the ability of microdevelopment organizations to provide the level of assistance contemplated in the 2008 Farm Bill. This could limit the true potential of RMAP to provide opportunities to small rural businesses, which make up 90 percent of all rural businesses.

Mr. Secretary, thank you for your continued consideration of the implementation of RMAP. I look forward to working with you to ensure the program is properly implemented, so that our nation's small rural businesses can adequately secure affordable and flexible financing.

Sincerely,

E. Benjamin Nelson
United States Senator

EBN:ejl

Enclosure

QUESTIONS SUBMITTED BY SENATOR BEN NELSON

RURAL MICROENTERPRISE ASSISTANCE PROGRAM

Question. I worked to get the Rural Microenterprise Assistance Program (RMAP) into the 2008 Farm Bill (The Food, Conservation, and Energy Act, P.L. 110-246), which was signed into law on in June of 2008. Unfortunately 20 months later we are still waiting for USDA to roll out this new initiative.

With small business making up 90% of all rural businesses and over one-million rural businesses containing 20 or fewer employees; Congress supported the creation of RMAP, and provided mandatory funding for the initiative. Because we wanted to address the financing needs of small rural businesses, particularly the small firms with less than ten employees that have always had a difficult time securing affordable and flexible financing.

The current economic slowdown has made it even more difficult for these businesses. The reasons: banks are no longer willing to provide capital for expansion, for working capital or for equipment. The situation is even more dire for start-up businesses that do not have a track record and must depend on "character lending." The start-ups and micro businesses are on the chopping block for private credit even with a good business plan and/or record of success. While the Department published a proposed rule on RMAP last fall, we have seen nothing since. When can we expect the program to be implemented?

Answer. We anticipate that an interim rule will be published in April 2010 and that the Notice of Funds Availability (NOFA) will follow shortly thereafter.

Question. Can you provide a timetable for issuing a publication of a final rule, Notice of Fund Availability, application deadlines and loan and grant awards?

Answer. We anticipate publication of the Interim Rule in April, 2010 and that a NOFA will follow very shortly thereafter. Applications could be accepted as early as May with the first awards being made in August.

Question. The budget proposes a reduction of $1.65 million in microenterprise assistance grants. A number of Members expressed concern in a letter to the Department November 23, 2009 that the proposed rule did not adequately address need to ensure that the government's investment in this program was protected through technical assistance to borrowers nor did the rule seem to fully grasp the importance of helping those entities and organizations with community need but without the capacity to implement a program authorized under RMAP right this second. What is the view of the Department on technical assistance activities authorized under RMAP?

Answer. The Department fully realizes the importance of technical assistance to micro-borrowers and potential micro-borrowers. We also recognize the committee's position regarding the expansion of the microenterprise development industry into areas without immediate capacity. Upon receipt of the November 23rd letter the Department internally addressed each of the committee's concerns in developing the interim rule. The rule is currently under review.

In that same letter, we also commented on the proposed rule regarding loan rates and loan loss reserves. In our view the statute is clear in mandating 1% loans to intermediaries. The rule proposed a different and in our view more confusing approach. The proposed rule also required borrowers to fund from their own resources the loan loss reserve. This requirement will serve to limit participation of organizations with limited resources. Our suggested was to fund that out of the federal loan. What is the Department's view on these issues?

Answer. We agree that the rate structure in the proposed rule was not straight-forward. This issue has been addressed in the interim rule. We believe that the interim rule is much simpler.

Regarding the Loan Loss Reserve Fund (LLRF), we fully understand the committee's position regarding lowering the cost of program participation by funding the LLRF with federal funding.

QUESTIONS AND ANSWERS

JULY 21, 2010

Senate Committee on Agriculture, Nutrition & Forestry
Empowering Rural Communities, the Status and Future of the Farm Bill's Energy and Rural Development Programs
Questions for the Record
July 21, 2010

Senator Saxby Chambliss

1) It is my understanding that regardless of when the Environmental Protection Agency makes a decision on Growth Energy's petition for a waiver to allow the blending of up to 15 percent ethanol in gasoline, such blending will not take place until the new fuel is registered and certified. When does Growth Energy plan to apply for this federal registration and begin the state fuel certification process?

General Wesley Clark's Response:

Your understanding is correct. Under the Clean Air Act, a fuel manufacturer must first obtain a waiver and *then* Register a Fuel. If the EPA grants a waiver for E-15, then Growth Energy will register E-15 and begin the state fuel certification process as quickly as possible.

Waiver requirements under CAA § 211(f)(4) relate to the effect a fuel has on vehicles and emission control systems. Registration requirements under CAA § 211(b) address potential health effects from use of a fuel or fuel additive. A new fuel or fuel additive must both: (1) obtain a waiver (or be determined to be "substantially similar" to existing fuels); and (2) register a fuel prior to introduction into commerce. Registration under section 211(b) is not required in order to obtain a waiver under section 211(f)(4). In order to register a fuel, however, a fuel manufacturer must *first obtain a waiver* under section 211(f)(4) that allows use of a particular fuel or fuel additive. Under EPA's regulations that govern fuel registration (40 C.F.R. § 79.11(f)), a fuel manufacturer must, as part of any fuel registration under CAA § 211(b),"demonstrate that the fuel is substantially similar to any fuel used in certification . . . or that the manufacturer *has obtained* a waiver under § 211 (f)(4)." (Emphasis added). Thus, in order to register E-15, Growth Energy must *first* obtain a waiver from EPA under CAA § 211(f)(4).

2) According to the Renewable Fuels Association, failure to extend the Volumetric Ethanol Excise Tax Credit (VEETC or "tax credit") would result in a loss of 112,000 jobs in all sectors of the economy and a 38% contraction in ethanol production; approximately 4 billion gallons. However, according to a just released report from the Center for Agricultural and Rural Development (CARD) at Iowa State University, elimination of the

tax credit would impact markets "modestly, with ethanol production declining by an average of about 700 gallons" (page 19) and according to the Congressional Budget Office (CBO), "To the extent that the mandates determine future production levels, the biofuel tax credits would no longer be increasing production" (Page 18). It would seem that the methodology and analyses produced by the Renewable Fuels Association and pro-ethanol groups is at odds with that of the Congressional Budget Office and land grant universities. Can you explain the difference in methodological approaches between pro-ethanol groups and that of CBO and CARD?

General Wesley Clark's Response:

The CARD paper is based on the assumption that EPA allows intermediate blends in a way that substantially increases U.S. ethanol demand (p 22). This paper assumes that the EPA approves E15 and it results in the use of a lot more ethanol. This is evident in the various scenarios the paper presents, the majority of which show U.S. ethanol production at 15 billion gallons. Without E15 (or a significant increase in FFVs and blender pumps), it is impossible to use 15 billion gallons of ethanol in the U.S. market.

That is the essential contribution of the paper: if the ethanol industry gets access to a bigger share of the market, the government supports aren't as important. That is essentially what Growth Energy has said in the Fueling Freedom Plan. But our plan goes much further. Rather than just allowing ethanol to compete for a few billion extra gallons, Growth Energy proposed busting the market open and forcing all fuels to compete for the consumer's dollar.

The CBO report says that the tax credit is expensive and unnecessary but the report makes a series of errors in its evaluation. First, like the CARD study, CBO assumes that there are not any market or infrastructure barriers to reaching 15 billion gallons. Again, Growth Energy's position is that in a truly open market, ethanol can sustain itself and compete without the support of the tax credit but in order to develop this market, we need to build out the sufficient infrastructure to use and transport ethanol.

Second, CBO grossly misstates the cost to taxpayers through the Volumetric Ethanol Excise Tax Credit. They make a major error in assuming ethanol has two-thirds the value of gasoline; there is negligible BTU loss with 10-15 percent blends because of ethanol's higher combustion efficiency (as found in separate analyses by two engineering firms: Levelton Enginnering Ltd., and (S&T)2 Consulting Inc.). A gallon of ethanol can replace gasoline because ethanol's higher octane rating (113-115 compared to 86-87 for conventional gasoline) allows high compression engines to perform as well with fewer BTU's.

CBO also overstates the amount of petroleum used to create ethanol. In fact, according to the latest USDA study, there is a net energy balance in the production of ethanol; USDA's exhaustive study found, comparing apples to apples, it only took 5,729 BTUs of petroleum to generate the 76,000 BTUs in a single gallon of ethanol. CBO's figure of 11,000 BTUs is far off the mark.

In addition, to arrive at their cost estimate of the tax credit, the CBO assumes that 32 percent of the ethanol market exists because of the tax credit and then assigns all of the outlays to those gallons. However, if their benefit were spread out over the entire market, the cost would drop by two-thirds.

Finally, CBO makes an omission in their calculations by ignoring the substantial reductions in farm program payments, all documented by USDA, GAO, Purdue and Iowa State University, that stem from creating a steady domestic market for grain, and even ignores the federal and state tax revenue generated from the industry's economic activity. Both of these more than pay for the costs of the VEETC, several times over.

Senate Committee on Agriculture, Nutrition & Forestry
Empowering Rural Communities, the Status and Future of the Farm Bill's Energy and Rural Development Programs
Questions for the Record
Undersecretary Dallas Tonsager
July 21, 2010

Senator Max Baucus

1) **As I have traveled throughout Montana this year, small business owners have told me time and again that they are having trouble accessing capital. They can't hire people without capital.**

   Earlier this year, I introduced a bill that would make some changes to your agency's Business & Industry Guaranteed Loan Program. My bill would increase B&I's loan guarantees to 90 percent, provide for lines-of-credit and allow B&I loans to be used to refinance debt.

   I would like to know your thoughts on this bill and whether you believe it will spur lending in rural areas.

   Response: The Administration shares the Senator's concern regarding the need for access to capital and has advanced a number of important proposals to assist small businesses, but at the present time, the Administration has not taken a position on the legislation you have introduced.

Senator Tom Harkin

1) **The Biorefinery Assistance Program of loan guarantees was created and funded in the Food, Energy, and Conservation Act of 2008 in order to assist developers of advanced biofuel biorefineries. However, it appears that very few projects are able to secure the financial support necessary to move forward with biorefinery construction even with this program of loan guarantees in place.**

   At the same time, I believe we should do all we can to stay on the trajectory of aggressive advanced biofuels development and commercialization as is specified in the Renewable Fuel Standard of the Energy Independence and Security Act of 2007. Please tell us what USDA can do to help improve the effectiveness of this Biorefinery Assistance Program. Please specifically address whether and what USDA might do regarding the following specific program implementation issues:

a. **What minimum retention amount is USDA requiring loan guarantee applicants to meet, and might a change in that requirement help project developers assemble financing packages to move forward with successful advanced biorefineries?**

Response: The Section 9003 Biorefinery Assistance Program currently requires the lender of record to hold 50 percent of the unguaranteed portion of the loan. The Agency published a Notice of Proposed Rule Making on April 16, 2010, soliciting comments regarding the 50 percent minimum retention requirement. The comment period closed on June 15, 2010. The Agency is reviewing comments for the Section 9003 proposed rule regarding the minimum retention requirement and will promulgate regulations accordingly in this final rule.

b. **Are there different financing structures that might be considered? For example, might the program consider applications for guarantees for project financing based on borrowing through corporate bonds?**

Response: The proposed rule solicited comments regarding alternative financing structures. This Agency is currently reviewing the comments. The 9003 program presently considers applications for guarantees for project financing based on borrowing through some corporate bonds.

c. **Would issuance of both grants and loan guarantees enable more applicants to secure project financing to move forward with successful advanced biorefinery development?**

Response: The 2008 Farm Bill provides the authority to make grants for demonstration scale projects and loan guarantees for commercial scale projects. No authority is provided for grants/ loan guarantee combination financing. The 2011 budget provides $17.3 million in discretionary budget authority that supports a program level of about $48 million for loan guarantees in addition to significant mandatory funding provided through the 2008 Farm Bill.

d. **Are there other actions that USDA might take to help advanced biorefinery developers to move forward?**

Response: The Agency recognizes the greatest challenge faced by the 9003 Program to be that of lender participation. The proposed rule solicited and public comments were received regarding a number of issues that may influence lender participation. The Agency is reviewing and addressing those comments. The Agency has committed to marketing and outreach efforts to educate lenders on the 9003 Program and to encourage participation.

e. **Are there legislative actions that USDA might outline that would make this program more effective in supporting development and commercialization of advanced biofuels?**

Response: Additional legislative authority is not required to make the program more effective.

Ranking Member Senator Saxby Chambliss

1) **The Bioenergy Program is a not a new program, though it has previously been administered by the Farm Service Agency. Congress made considerable modifications to the program under the 2008 farm bill and as such USDA moved the responsibility for managing this program from the Farm Service Agency to the Rural Development mission area. I can certainly respect USDA's decision to run this program through a different agency in the Department, but I note that in doing so some standard rural development parameters have been applied which has resulted in disqualifying certain entities from participating. I might suggest that this one-size-fits-all approach should be examined for each program, particularly those authorized in the energy title of the farm bill rather than the rural development title which in and of itself indicates a different objective. The bioenergy program is designed to provide incentives for the use of energy commodities through the expansion of biofuel production, but nothing in the program authority suggest that the physical location or the ownership interest of the facility should be a qualifying factor - does it make any sense to restrict assistance to biofuel facilities located in the U.S., employing U.S. workers, and utilizing feedstock produced in rural America?**

Response: The Section 9005 proposed rule solicited public comments regarding the rural area requirement and the 51 percent U.S. ownership requirement. This Agency recently announced that 9005 applicants that were not eligible in prior announcements due to foreign ownership and rural areas are able to apply for funding that has been previously announced.

2) **In September of 2009, USDA launched the "Know Your Farmer, Know Your Food" (KYF2) initiative. What is USDA hoping to achieve through this program? How will USDA measure results from this initiative -- in other words, what are your specific metrics for success?**

Response: The overall mission of the "Know Your Farmer, Know Your Food" initiative is to strengthen the critical connection between farmers and consumers and support local and regional food systems. This initiative integrates and emphasizes programs and policies that, among other outcomes, create new economic opportunities by connecting

consumers with local producers, and cultivate healthy eating habits, and educated, empowered consumers.

I want to emphasize that "Know Your Farmer, Know Your Food" is not a stand-alone program. Funds in existing programs are used to continue to carry out the existing program's purpose. "Know Your Farmer, Know Your Food" merely raises the visibility of existing USDA programs. Each of the existing programs related to the "Know Your Farmer, Know Your Food" initiative has its own measures of success that in part reflect the efforts of the initiative.

3) **It seems that the Know Your Farmer, Know Your Food initiative focuses on small and mid-size operations and excludes conventional and/or large farms. Are there differences in the relative benefits to local economies based on farm size and, if so, do you have empirical data to support this? Will farmers or farmer cooperatives that are not small or mid-sized be eligible for the programs that KYF2 targets if they are marketing their agricultural products on a national, or international level?**

Response: The "Know Your Farmer, Know Your Food" initiative is designed to benefit all of American agriculture by facilitating a much-needed national conversation about food, food production, and all that farmers do to provide our food supply. One of the main goals of the initiative is to better link consumers to the farmers they rely on for every meal. An informed consumer that understands the capital investments, the weather and other risks associated with farming is more likely to support-or even act as advocate for-all forms of agriculture, compared to a consumer with little knowledge of agriculture. The initiative also seeks to foster new opportunities for all types of farmers by supporting new markets created by the demand for local and regional products. This will benefit rural communities as USDA strengthens the link between rural economies and agriculture and helps rural areas become economically sound, vibrant places to live. We are taking an inclusive approach to the "Know Your Farmer, Know Your Food" effort, and look for successful examples and insights from all types and sizes of production systems.

Senator Chuck Grassley

1) **The Value Added Producer Grant program was designed as a way for farmers and ranchers to increase their income by adopting new production techniques that increase their product's value or processing it into a higher valued product. Since the point of the program is to make resources available to producers I have been increasingly concerned to see obstacles put in the path of participation. I refer to:**

- **One - An overly complex application process that I have been told takes professional grant writers a week or more to complete,**
- **Two - Unreasonable restrictions on allowing farmers and ranchers to participate in business planning for their value-added enterprises,**
- **Three - Restrictions on farmers being able to count the time they put into business planning as part of their "in-kind match" requirement, and**

- **Four - The lack of a genuinely simplified form for application of less than $50,000 -- even though we clearly mandated a simplified form in the 2008 Farm Bill.**

Since Rural Development has now recently issued a proposed rule for the Value Added Producer Grants program and is presumably working on finalizing that rule, could you explain how you propose to remedy these problems?

Response: All four of the items mentioned were areas of intense consideration during the rulemaking process. The agency is well aware of these concerns and it is using this rulemaking to consider how to address these concerns. Our ultimate goal is to balance the assurance that taxpayers' funds are used for viable purposes with streamlined application procedures. While USDA is examining its authorities to address these concerns, because these are grants, certain basic federal grant regulations do apply.

2) **The Value Added Producer Grant program is one of Rural Development's best tools to stimulate growth in rural communities, yet here we are more than three-quarters through the fiscal year and more than two years since passage of the 2008 Farm Bill and all we have is a proposed rule, but no final rule. There is no Notice of Funding Availability out yet for the $20 million in funding Congress appropriated for this current fiscal year – which I have already written to Secretary Vilsack about.**

This very lengthy delay seems to indicate internal, bureaucratic difficulties. The Secretary speaks often about the need to stimulate jobs and improve the rural economy. He also speaks of the need to build improved regional food and renewable energy systems.

Here is one of the keystone programs in your portfolio to address these very same objectives and yet there is not even a request out for proposals this far into the fiscal year. Clearly, at best, this year's appropriation will be spent next year, which is unfortunate.

I have a series of questions that I hope you can shed light on:

- **Can you tell me in a general sense what it is that is going wrong?**
- **When will the 2010 Notice of Funding Availability be issued?**
- **Why has it taken more than two years, and still no final rule?**
- **Once the NOFA is issued, will farmers and ranchers be given sufficient time to complete and return their proposals? – after all it is not their fault there have been long bureaucratic delays, so they should not be penalized by having a too short application deadline.**
- **What is the Agency doing to ensure the funds available each year are disbursed in a timely way and that Rural Development state staff understand and explain the program to farmers and ranchers?**

Response: To address concerns with the program, the agency has chosen to take advantage of the deliberative process presented by the rulemaking process prior to issuing the 2010 NOFA. We have published a proposed rule for comment, received comments, and the regulation is now in internal clearance. We are currently targeting the publication of the rule for this fall, followed closely with a NOFA announcing the opening of the 2010 application period. We are well aware of the constraints placed on our farmer applicants by the realities of the growing season, and it is our intent to give them sufficient time to complete applications, preferably during the time of the year when they are less busy.

3) **Rural Development provides such a valid service to rural and low income residents in offering lending options for single family homes and I commend the USDA for continuing to highlight this program. One of the benefits we've seen over the years is that when we use guaranteed loans to dole out the housing funding, we get more bang for our buck. Basically, we have 7:1 (7 to 1) more lending authority when we use guaranteed loans compared to a 2:1 (2 to 1) ratio for direct lending.**

It's come to my attention that USDA has started to shift more resources from the guaranteed loans to direct lending by USDA. Can you explain why USDA has made this change?

Response: We are not familiar with the ratios of 7:1 and 2:1 mentioned in the question, but believe they may relate to subsidy rates for the programs, which until the recent supplemental appropriation bill was 1.44% for the 502 guaranteed program and currently is 3.63% for the 502 direct program. As you may be aware, the Section 502 guaranteed loan program ran out of appropriated funding in mid-May 2010. At that time, private sector lending activity in the guaranteed program dropped off dramatically even though USDA encouraged lenders to make loans and continued issuing lenders conditional commitments. Given the funding situation and the drop of activity in the guaranteed program, it made sense to shift human resources to delivering the Section 502 direct loan program which had available funding.

Shouldn't the goal be to serve as many rural customers as possible?

Response: The goal is to serve as many rural customers as possible within both the direct and the guaranteed loan programs. However, the programs serve different clientele.

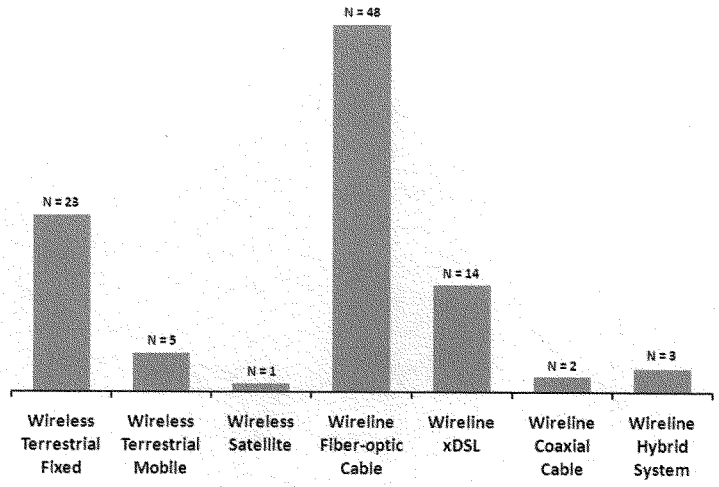
The guaranteed program, which can serve households with income up to 115% of median family income, targets a customer who does not require subsidized financing to purchase a home. The income limits used in the guaranteed program are not the same as those used in the 502 direct program. The 502 guaranteed program uses the greater of area or national median income and also bands the household size as 1-4 and 5-8, while the direct program follows the guidelines under the United States Housing Act of 1937, including the household composition limits, and does not band or group these within a

wider range as in the guaranteed program. Households which qualify under the direct loan program most often do not qualify under the guaranteed loan program. In fact, one of the basic tenets of the direct program is that the applicant must be unable to obtain credit from other sources on terms and conditions they can reasonably be expected to fulfill. Thus, both programs are important and are used in tandem to serve as many rural customers as possible across a wide income spectrum.

Senator Michael F. Bennet

1. **Expansion of and increased access to broadband throughout rural America is a priority we share. As you know, the American Recovery and Reinvestment Act included $7.2 billion for Broadband, approximately $3 billion of which is to be administered by the USDA's Rural Utility Service for rural broadband infrastructure expansion. With RUS beginning to announce the recipients of the second and final round of funding awards, increasingly I hear concerns about whether or not the USDA has an unwritten preference for one technology over another. Without compromising the competitive nature of the applications under consideration, would you please elaborate on how the USDA is weighing short-and-long term costs, accessibility, ease of installation and technological preference with regard to the current round of applications for ARRA Broadband awards? How does previous receipt of USDA-RUS assistance and/or type of technology proposed factor into RUS' overall evaluation of any particular application?**

   Response: Through the Recovery Act, and our traditionally appropriated broadband programs, RUS is technology neutral. In fact, RUS has a long history of financing innovative technologies through our regular broadband program such as WiMax and Broadband-Over-Powerlines (BPL). Below you will find a graphic displaying the types of technologies that RUS funded under NOFA 1:



Totals exceed no. awards because many projects use multiple technologies

There are many factors that go into the review of a Broadband Initiatives Program (BIP) application. Each is given a thorough financial analysis and technological review to ensure the project is both feasible and sustainable. There is no "preference" or priority for certain types of technologies.

With regard to previous receipt of RUS assistance, the Recovery Act provided four statutory priorities for BIP, one of which was priority for current or former RUS Title II borrowers. This statutory priority was implemented by providing Title II customers with "points" in the overall scoring process.

2. **The FCC is in the process of proposing new rules to modify the Universal Service Fund (USF) formula, which rural carriers depend heavily on to ensure their customers have access to telephone and Internet service. Would you please discuss the potential costs and benefits of the proposed change to FCC rules with regard to broadband service and access in rural America? How would the FCC's proposed changes affect the USDA's RUS broadband programs and portfolio?**

Response: The Rural Utilities Service (RUS) enjoys a close working relationship with the FCC on ensuring that rural America has access to first-class telephone and broadband service. The National Broadband Plan introduced changes to the USF formula which have the potential to impact rural telephone carriers – whether financed by RUS or

another lender. With over 60 years experience in providing loans and grants in rural areas, RUS is uniquely qualified to help FCC understand the potential impacts of USF reform on the financial viability of a rural telephone carriers. Since release of their Plan, FCC and USDA have had several meetings to discuss this issue. We firmly believe that our expertise will help the FCC develop future proposed changes to the USF that will continue to support high cost areas such as rural America.

3. **The USDA administers at least forty-four separate rural development programs—and numerous other programs centered on rural economic development are administered by other agencies across the government. In your testimony you acknowledged that there may overlap and duplication among these programs and that there may be room to streamline and to make USDA Rural Development programs more user-friendly. Would you please elaborate on this?**

   Response: One example is the capitalization of revolving loan funds, where the Rural Business – Cooperative Service has four different programs that can accomplish this task. The Agency is presently working on developing and implementing an on-line reporting system that will be used by all recipients administering revolving loan fund programs funded by Rural Development Business Programs loans and grants. That is, a single reporting system for recipients of the Intermediary Relending Program, Rural Microentrepreneur Assistance Program, Rural Business Enterprise Grant program, and the Rural Economic Development Loan and Grant Program.

4. **One area of concern with regard to accessing the USDA's rural development programs that I hear repeatedly from my constituents is that the communities in most need of USDA assistance are most poorly equipped to prepare an application for those funds. For example, a town of 400 with interest in a Community Facilities grant is less likely than a town of 20,000 to have an experienced grant writer on-hand to prepare the necessary grant application. What ideas do you have and what is USDA-Rural Development doing to lower the barriers to accessing these programs?**

   Response: Rural Development recognizes that many of our neediest, smallest rural communities lack staff capable of developing the required applications. Our field personnel make every effort to spend extra time with these applicants, providing guidance and assistance as the application is developed. Often, professional grant-writing assistance is available, at little or no cost, from entities such as sub-State regional planning organizations or local colleges. Other professionals, such as architects or engineers who have previously worked with the Agency, may be able to offer some help in navigating the application process as they proceed with the design and development of the project.

Generally, we find that size of the locality and lack of staff are not insurmountable barriers to accessing our programs. We recognize, however, that simplifying application processes and ensuring consistency in program delivery and service are continuing objectives.

Senator John Thune

1) **There has been a lot of interest in the Biomass Crop Assistance Program. Can you provide for this Committee a general sense of what types of projects have been approved to participate in BCAP? How many of these are related to transportation fuel? What would be the budget implications if this program were more narrowly tailored to biofuels?**

Response: To qualify for matching payments, biomass producers must have entered into agreements with existing biomass conversion facilities. Because no commercial-scale advanced biofuel facilities exist at this time, the three-or-more year timeframe to establish sufficient crops of biomass to supply such a facility, and the limited five-month window of the Notice of Funding Availability (NOFA), no transportation fuel facilities participated. When the final regulations implementing the full BCAP program are issued, and the establishment and annual payments begin, a greater number of advanced biofuels facilities will participate.

If this program were tailored more narrowly to biofuels only, it would decrease the pool of eligible applicants, likely resulting in lower budget expenditures. Because heat and power operations exist today, however, they serve as a gateway market for a biomass crop base while next-generation biofuels facilities are under development; meanwhile, the biomass also can provide a lower-barrier, lower-cost fuel switching option for heat and power facilities that are exploring immediate carbon reduction solutions.

Under the NOFA, some examples of the types of facilities that were qualified under BCAP included (1) a food waste recycling facility where material is processed through a dryer fueled by wood waste; (2) a food processor that uses a circulating fluidized bed boiler for co-firing and the combustion of wood chips and agricultural residues to produce heat and power; (3) a facility that uses the pyrolysis conversion method to convert grasses, straw, corn cobs, softwood chips, etc. into pellets that can be sold and combusted for the production of heat and power; (4) schools and universities that provide heat via woodchip boiler; (5) a facility retrofitted with a high efficiency biomass boiler for the purposes of providing power to a cooperative.

2) **(a) Does USDA believe that biomass combustion has a positive role to play in the effort to reduce greenhouse gas emissions? And, if biomass combustion has a positive impact on greenhouse gas emissions, do you believe biomass combustion should be treated differently than fossil fuels under greenhouse gas regulations?**

Response: Yes, USDA believes that biomass combustion processes have a positive role in reducing greenhouse gas emissions. Biomass combustion emissions are treated differently from fossil fuels. The USDA believes regulations of these emissions should be recognized distinctly as biogenic in origin, where appropriate.

(b) Should biogenic emissions be treated the same as fossil fuel emissions the Agency would expect significantly lower program participation, e.g., fewer Section 9003 Biorefinery Assistance projects, fewer Section 9004 Repowering Assistance program projects, and fewer larger scale bio thermal power plants will be undertaken through the Section 9007 Rural Energy for America Program.

Response: Adoption of policies treating biogenic emissions as an offset to fossil fuel emissions with a monetary value favoring biogenic emissions would create greater demand for all Agency Energy Programs. If regulations or enacted legislation accounted for biogenic emissions in the same way that fossil emissions are accounted, renewable energy biomass projects would be discouraged.

3) **Our biodiesel industry has been all but idled with the expiration of the biodiesel tax credit at the beginning of this year, and unfortunately, biodiesel requirement for 2010 under the new Renewable Fuels Standard has been watered down through EPA rulemaking. With regards to the Advanced Biofuel Producer Payments, is the Department of Agriculture putting any additional emphasis on biodiesel producers who are struggling without the biodiesel tax credit? Does Rural Development have any flexibility to direct additional resources toward biodiesel producers through the Advanced Biofuel Producer Payments program? For those biodiesel producers who are participating in the program, do you find that this assistance is enough to keep them producing biodiesel even without the biodiesel tax credit?**

Response: The Section 9005 Biomass Program for Advanced Biofuels provides payments to **all** eligible advanced biofuel producers, including biodiesel producers, for their production. The Agency aggressively markets this program to all eligible producers, biodiesel producers included. To be eligible, producers must enter into a contract with USDA Rural Development for advanced biofuels production and submit records to document such production. No preference is given to any specific type of biofuel. The 2010 NOCP provides no flexibility to direct additional resources toward biodiesel producers.

Funding in fiscal year 2009 provided payments to 80 biodiesel producers in the amount of $6,472,996. The average producer payment was $81,237. Individual payments ranged from $11.39 to $727,132.93. Payments were issued after production was validated. In most cases, the assistance was insufficient to encourage production that was not otherwise intended.

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