



United States Department of Agriculture
Rural Development

MAR 11 2008

The Honorable Henry A. Waxman
Chairman, Committee on Oversight and Government Reform
2157 Rayburn House Office Building
Washington, DC 20515-6143

Dear Chairman Waxman:

This is in response to your letter of February 14, 2008, jointly signed by Congressman Jim Cooper, in which you raised concerns and requested information regarding the financial analysis this Agency utilizes in making decisions on loans for new coal-fired generation plants.

The Administration presently is not funding loans for new base load generation plants until the Agency and the Office of Management and Budget can develop a subsidy rate to reflect the risks associated with the construction of new base load generation plants.

In the interim, the demand for electricity in all parts of the country, including rural areas, is continuing to grow significantly and all studies that we have seen indicate that energy efficiency practices, conservation measures and renewable energy sources, at best, can reduce approximately 17 percent of the demand. Carbon capture technology may ultimately become a significant part of reducing carbon dioxide emissions although it is likely to not be available in the near term in sufficient scale to address the expected demand requirements.

We are presently working with one cooperative that is proposing to install carbon capture technology on an existing coal fired plant. This will be an addition to what is now the world's largest carbon capture and sequestration project to be undertaken to date. The carbon dioxide from the plant will then be transported via a pipeline for enhanced oil recovery. A portion of the carbon dioxide will also be injected into a non-recoverable coal seam and will be monitored to ensure containment. Another portion will be injected into a saline formation and will also be monitored to ensure containment. The information relative to carbon capture and storage expected to be gained from this project will advance the technology that is needed by everyone concerned with the global warming issue. However, because the plant must divert a portion of its generated power in order to energize the carbon capture technology, this portion of its power will not be available to existing customers and must be replaced either by purchased power from the open market or by adding new sources to meet the needs of its existing rural customer base.

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Mr. Chairman, today the Rural Electric Generation and Transmission Cooperatives generate a little less than five percent of the electricity generated in this country and generate 53% of the power supplied to member distribution cooperatives, purchasing the remainder from the private market and from Federal Power Marketing entities such as the Tennessee Valley Authority.

The Rural Electrification Program was conceived as a public/private partnership to assume the risks associated with providing affordable electricity to rural consumers because investor-owned utilities refused to assume the financial risk due to the lack of consumer density. Cooperatives average about 7 consumers per mile of line compared to investor-owned utilities averaging 35 consumers per mile of line. This Agency and the cooperatives have successfully managed the risks associated with the low density and minimal levels of revenue, in the form of margins, for over 75 years. Additionally, together we have successfully managed the implementation of each new environmental standard as they have been promulgated and as new technology has become available.

Although the costs of meeting environmental requirements continue to be significant, cooperatives have remained financially sound. The Agency and the cooperatives are acutely aware of the costs associated with the control of greenhouse gas issues and stand ready to manage the implementation of carbon dioxide standards when issued even though the costs will affect rural consumers more than those located in more urban areas. The disparity in costs will result from the fact that consumer density is significantly less than either municipal systems and investor-owned utilities. Additionally, rural consumers are more dependent on coal-fired generation than the rest of the country and are very concerned with the greenhouse gas emissions, just as everyone else in the country.

Approximately one-third of the generation and transmission cooperatives the Agency serves are rated by the three major rating agencies and four of these cooperatives have AA ratings from one of the three rating agencies (S&P, Fitch, Moody's). These are the only AA rated utilities in the country. One significant component of that rating is the ability of the cooperatives to manage financial and operational risks. Secondly, the rating agencies find great strength in the wholesale power contracts and the cooperative's ability to generate adequate margins to cover the debt service. There are several other generation and transmission cooperatives that are currently considering obtaining ratings.

The Agency's regulations require it to make an environmental assessment of every generation project that it finances that exceeds 20 megawatts of capacity. Power plants of 20 megawatts or less are generally renewable energy or distributed generation plants, not plants. The environmental assessment also determines the need for an Environmental Impact Statement (EIS) which is typically a 2 year process examining potential environmental (including emissions), cultural, and historical impacts. The EIS also analyzes the need for the additional capacity and alternatives to the proposed project and includes consideration of renewable energy, energy efficiency measures, purchasing power from other sources and alternate fuel sources. During this process, the public is invited to participate and provide comments.

The Agency also conducts an assessment of the load forecast justifying the need for the project as well as a financial feasibility assessment and engineering review of the project. If the proposed plant is a unit, greenhouse gas emissions and the possible effects on global warming are evaluated within the limits of today's technology and costs to the extent possible. The Agency's approach to these projects is very similar to the three major, private sector lenders referenced in your letter. However, the Agency is the only lender requiring the completion of an Environmental Review prior to the approval of any loan. And, unlike the private sector lenders, we have an engineering staff that assists in the review of the feasibility of requests for federal financing.

Meaningful analysis of the cumulative impacts of an individual proposed plant on global climate change presents a difficult analytical challenge due to the current state of the science. As you are aware, at present there are no thresholds or standards available to enable an assessment, nor is practical technology to control or capture greenhouse gas emissions likely to be available in the near term. At this time analysis of the financial impacts of future laws, standards and costs of technology would be speculative. The Agency, its borrowers, and everyone involved in this industry are very much aware of the various legislative proposals that have been discussed as well as the potential financial impacts.

I believe that everyone involved in the electric industry would welcome a standard so that the Agency and its borrowers can plan adequately and begin meaningful financial risk analysis. The cooperatives we serve are owned by the people served by them and the management of these organizations has been consistently informing their member/owners of the potential costs of controlling greenhouse gas emissions.

Mr. Chairman, as reflected in the responses to your questions, the Agency has loaned over \$25 billion from FY 2001 through FY 2007. Only \$1.3 billion has been loaned for new coal-fired generation plants and \$1.5 billion has been for environmental improvements on existing plants.

Question 1. Identify the total amount of RUS's outstanding loans and loan guarantees for electric power. Please provide separate figures with respect to: (a) loans; and (b) loan guarantees for this response and each of the following questions that requests information about loans and loan guarantees.

NOTE. The vast majority of the guaranteed loans are made by the Federal Financing Bank and thus are classified as direct loans in accordance with the provisions of the Credit Reform Act of 1990. There is approximately \$262 million in guaranteed loans made by the National Rural Utilities Cooperative Finance Corporation or CoBank in 1999, 2000, and 2001. However, none of the guarantees were for base load generation.

Response: As of December 31, 2007, the Agency had 6,240 outstanding loans totaling \$35.9 billion. At present the portfolio has a delinquency rate of .01%.

Question 2. Identify RUS's total amount of loans and loan guarantees for power plants with uncontrolled greenhouse gas emissions.

Response: The majority of the plants financed by the Agency were constructed prior to 1985. The Agency estimates that it will take two to three weeks to manually search files to obtain the requested information. Records detailing information on the plants have been archived, but we will provide the information as soon as possible. The information for loans for coal fired generation since 1980 is shown below:

Borrower	Approval Date	Amount for Generation	Capacity in Mega Watts	Comments
Sunflower Electric Power Cooperative	05/1980	\$465,000,000	360	Holcomb Unit #1
North East Texas Electric Cooperative	07/01/1985	\$24,804,000	37	5.86% of Dolet Hills Plant
Alabama Electric Cooperative	09/28/1990	\$53,799,000	108	8.16% of J.H. Miller Plant
East Kentucky Power Cooperative	09/23/2003	\$413,753,000	268	Gilbert Plant
East Texas Electric Cooperative	06/17/2004	\$79,403,000	182	Ownership in three Entergy units
Cornbelt Electric Cooperative	08/12/2004	\$65,395,000	42	5.6% of Council Bluff Plant
Central Iowa Power Cooperative	08/12/2004	\$89,923,000	60	8.0% of Council Bluff Plant

Dairyland Power Cooperative	09/07/2005	\$280,000,000	150	30% of Westin Plant #4
East Kentucky Power Cooperative	02/23/2006	\$481,388,000	278	Spurlock #4 Plant

Question 3. Identify the number and amount of new loans and loan guarantees that RUS provided each year for electric power, starting in 2001.

Response. The table below reflects total financing of all generation, transmission, and distribution purposes.

Fiscal Year	Number of Loans	Amount
2001	226	\$2,615,527,470
2002	184	\$4,073,792,946
2003	197	\$3,971,638,355
2004	221	\$3,831,803,000
2005	111	\$4,319,115,000
2006	118	\$5,389,764,356
2007	103	\$3,889,764,304

Of the amounts funded from 2001 through 2007, \$1.5 billion was for environmental improvement technology on existing plants as shown below

Fiscal Yr.	Borrower	Environmental Funds	Project Description
2001	Buckeye Power	\$120,000,000	Scrubbers
2001	Southern Illinois	\$37,820,000	Scrubbers
2002	East Kentucky	\$223,500,000	Scrubbers
2003	Buckeye Power	\$42,868,000	Cost Overruns-F8 Scrubber Loan
2004	Dairyland Power	\$125,688,847	Environmental Control (baghouse & low NOx burner)
2005	Buckeye Power	\$239,760,000	Flue Gas Desulfurization System (Cardinal Unit)
2006	Oglethorpe Power	\$78,418,000	Misc. Environmental Compliance Projects
2007	Buckeye Power	\$280,800,000	Flue Gas Desulfurization System (Cardinal Unit)
2007	Oglethorpe Power	\$348,940,000	Misc. Environmental Compliance Projects
TOTALS		\$1,497,794,847	

Question 4. Identify the number and amount of new loans and loan guarantees that RUS provided each year, starting in 2001, for power plants with uncontrolled greenhouse gas emissions. Identify each specific power plant that received such a loan, the size of the plant, when the plant began operation or will begin operation, and has been for coal fired generation.

Response. Since 2001 the Agency has loaned \$25 billion, the amount loaned for coal fired generation is \$1.3 billion. The remainder has been loaned for improvements to existing electric systems, environmental improvements, transmission, distribution, peaking and intermediate generation facilities which utilize natural gas as the fuel source. See Attachment 1.

Question 5 Identify the amount of new loans and loan guarantees that RUS projects it will provide each year for electric power over the next 10 years (or for whatever period for which RUS has made projections).

Response. The vast majority of the applications in house are for purposes other than the construction of new generation facilities. At present we have pending applications on hand totaling \$12.1 billion, including the \$6.5 billion expected to be made in FY 2008. The President's Budget for FY 2009 request a funding level of \$4.0 billion. The \$6.5 billion in FY 2008 will be used for environmental improvements, transmission and system improvements, distribution facilities, and renewable energy projects. We have four applications for plants. These applications total \$1.2 billion and three applications are for minor percentages of plants being financed by the private sector. The specific information is as follows:

1. Kansas Electric Power Cooperative, 30 MW (3.5%) of a 850 MW Plant, \$55 million. (State of Kansas)
2. East Texas Electric Cooperative, 50 MW (7.7%) of a 650MW Plant, \$102 million. (State of Texas)
3. East Kentucky Power Cooperative, 278 MW, \$685 million. (State of Kentucky)
4. Prairie Power, 130 MW (8.2%) in two plants totaling 790 MW, \$385 million. (State of Illinois)

In addition to the above, the Agency has an application from Seminole Generation and Transmission Cooperative in Florida for a 750 MW plant totaling \$1.4 billion that is currently inactive and another from Associated Electric Power Cooperative for a 660 MW plant for \$1.2 billion. This application has been withdrawn. Additionally, Basin Electric Cooperative in North Dakota withdrew an application last year and the Agency recently informed Southern Montana Generation and Transmission

Cooperative that it would not finance the plant due to past and anticipated delays and resulting increased costs.

Question 6. Identify the amount of new loans and loan guarantees that RUS projects it will provide each year for plants with uncontrolled greenhouse gas emissions over the next 10 years (or for whatever period for RUS has made such projections).

Response. As stated above, the Administration is not presently financing of base load generation plants, including , for FY 2008 until the Agency and OMB develop a subsidy rate sufficient to cover the risks associated with the construction of new generating plants.

Question 7. Identify each specific power plant project for which RUS is currently considering providing financial support. For each plant, please include the name, location, size, total cost, projected schedule for construction and beginning operation, quantity of loans and loan guarantees requested, status of RUS's consideration of the loan request, whether the plant will include technology to control greenhouse gas emissions, and its projected quantity of annual and lifetime greenhouse gas emissions.

Response. See the response to Question 6 above. The plants referenced in the response to question 5 do not include technology to control greenhouse gas emissions. This technology will not be available in the near term. However, the Agency has a history of, and would finance only the best available technology.

Question 8. Explain whether prior to providing a loan or loan guarantee for the construction of a new power plant without greenhouse gas emission controls, RUS routinely analyzes the financial risks associated with the potential for regulation of greenhouse gas emissions.

- a. If RUS routinely conducts such an analysis, describe the analysis. Include details on the following:
 - I. The assumptions RUS makes about the likelihood, timing and stringency of such regulations;
 - II. The assumptions RUS makes about the quantity of emissions allowances, if any, that the government might provide free of charge; and
 - III. Assumptions RUS makes about the price per ton of carbon.
- b. If RUS does not routinely conduct such analysis, explain why not. Please state whether you will commit to such analysis for all loans and loan guarantees that have not yet been finalized. If you will not make such a commitment, please explain why not.

Response. The Agency does not conduct an analysis of the cost of greenhouse gas emission regulations since there is no clear consensus on what emission standards will be enacted and associated costs. Attempting to make decisions on loans absent a factual base is speculative at best.

Unlike other private sector lenders that are dependent on Public Utility Commissions to approve the rates necessary to retire debt associated with a plant, most Agency borrowers are not subject to rate regulation by State Public Utility Commissions. The security instruments we hold on all assets of the cooperative require the Board of Directors to raise rates needed to meet all Agency debt obligations. If the cooperative is rate regulated, the commission must issue an order putting the plant in rate base.

Question 9. Indicate whether RUS analyzed the financial risks associated with the potential for regulation of greenhouse gas emissions with respect to the proposed new Sunflower plant.

- a. If RUS conducted such analysis, please provide the analysis.
- b. If RUS did not conduct such analysis, I request that you do so now to provide a better understanding of the security of the government's outstanding loans to Sunflower. Please provide that analysis to the Committee when it is completed.

Response. The Agency did not conduct an analysis of the financial risks associated with the potential for regulation of greenhouse gas emissions with respect to the proposed new Sunflower plant because Agency financing is not being sought. The government's security for the existing Sunflower debt is not jeopardized because the Agency has a first lien on the existing Holcomb plant.

Question 10. Indicate whether RUS analyzed the possible electricity rate impacts for Sunflower's customers associated with the potential for regulation of greenhouse gas emissions with respect to the proposed new Sunflower plant.

- a. If RUS conducted such analysis, please provide that analysis.
- b. If RUS did not conduct such analysis, I request that you do so now to provide a better understanding of the rate impacts of Sunflower's proposal to invest in new coal plants. Please provide that analysis to the Committee when it is completed.

Response. The Agency did not conduct an analysis of the possible electricity rate impacts on Sunflower's members. That is the responsibility of Sunflower and the Kansas Corporation Commission.

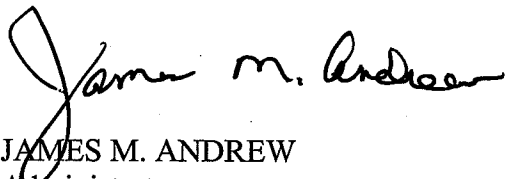
Question 11 State whether RUS has considered or analyzed the potential effects of providing financing for new power plants with uncontrolled greenhouse gas emissions on the Administration's overall climate policies, efforts, and goals.

- a. If RUS has considered such effects, please explain the results of such consideration and analysis.
- b. If RUS has not considered such effects, please explain why not.

Response. At present, RUS is not funding any new coal fired power plants. Should RUS commence a program to fund new construction, it will consider and analyze any policies regarding greenhouse gas emissions in effect at that time.

A similar letter is being sent to Congressman Cooper.

Sincerely,



JAMES M. ANDREW
Administrator
Utilities Programs

Attachment

**RUS Loan Guarantees
New Coal-Fired Generation Capacity
FY 2001-2007**

Fiscal Yr.	Designation	Loan Amt.	BP# 2 (Tran.)	BP #3 (Gen.)	Coal Gen.	Plant Name	Plant Size	% Share	MW Share	C.O.D.
2003	KY59 Z8	\$433,863,000	\$20,110,000	\$413,753,000	\$413,753,000	Gilbert	268 MW	100%	268 MW	2005
2004	IA83 AF8	\$101,681,000	\$11,758,000	\$89,923,000	\$89,923,000	Walter Scott Jr. Energy Ctr. #4	750 MW	8%	60 MW	2007
2004	IA84 AE8	\$74,026,000	\$8,630,512	\$65,395,488	\$65,395,488	Walter Scott Jr. Energy Ctr. #4	750 MW	5.6%	42 MW	2007
2005	WI64 BS8	\$280,000,000		\$280,000,000	\$280,000,000	Westin #4	530 MW	30%	159 MW	2008
2006	KY59 AD8	\$481,388,000	\$43,000,000	\$478,388,000	\$478,388,000	Spurlock #4	278 MW	100%	278 MW	2008
TOTALS		\$1,370,958,000	\$43,000,000	\$1,327,459,488	\$1,327,459,488					