

RD AN No. 4388 (1942-A)  
(3575-A)  
(3570-B)

August 28, 2008

TO: State Directors  
Rural Development

ATTN: Community Programs Directors

FROM: Russell T. Davis (*Signed by Russell T. Davis*)  
Administrator  
Housing and Community Facilities Programs

SUBJECT: Funding for Renewable Energy Sources for Essential Community Facilities

**PURPOSE/INTENDED OUTCOME:**

The purpose of this Administrative Notice (AN) is to provide guidance regarding the use of Community Facilities (CF) funding for a renewable energy source in relation to a specific essential community facilities project. It will also provide clarification of ineligible use of loan funds under RD Instruction 1942-A, section 1942.17(d)(2)(iv).

**COMPARISON WITH PREVIOUS AN:**

This AN replaces AN No. 4267, dated April 3, 2007, which expired on April 30, 2008.

**IMPLEMENTATION RESPONSIBILITIES:**

We have received numerous inquiries regarding the development of renewable energy sources (i.e. wind turbines, solar panels, etc.) for eligible CF projects.

RD Instruction 1942-A, section 1942.17(d)(2)(iv), clearly states that “CF funds may not be used to finance electric generation or transmission facilities....” However this restriction refers to facilities that have, as their primary purpose, the generation of energy for general use, such as a wind farm for a municipally-owned power company.

EXPIRATION DATE:  
September 30, 2009

FILING INSTRUCTIONS:  
Preceding RD Instruction 1942-A,  
RD Instruction 3575-A, and  
RD Instruction 3570-B

The purchase and installation of a renewable energy system for use by a community facility is an eligible purpose for CF funding when:

1. the primary purpose of the facility applying for funding is that of an essential community facility, such as education or health care;
2. purchase or construction of a renewable energy system will help defray the cost of facility operation over the life of the system.
3. the borrower must demonstrate that the renewable energy system will improve its ability to provide the underlying essential community service, such as providing backup facilities or extending fuel supplies of backup facilities.
4. the borrower does not have, and will not have, any contract to sell power generated by the energy system; however, receiving credit for excess production is permitted.
5. the borrower does not anticipate, and has no plan for, generation of more energy that it will use in a consecutive 12 month period. The borrower may receive credits from a utility for energy production that happens to exceed facility usage during a particular month; and
6. the renewable energy system must be a commercially proven and available technology. Commercially available means a system that has a proven operating history specific to the proposed application. Such a system is based on established design, with established installation, maintenance and operation procedures and practices.

Projects that the Agency determines are without technical merit are ineligible. The Agency's determination of a project's technical merit will be based primarily on the information provided by the applicant. The Agency may engage the services of other government agencies or other recognized industry experts in the applicable technology field, at its discretion, to evaluate and rate the application. The Agency may use this evaluation and rating to determine the level of technical merit of the proposed project.

All applicants requesting financial assistance for renewable energy systems will be expected to provide a technical report as a part of the financial feasibility report in accordance with 7 CFR 1942.17(h). The technical report may be included with the feasibility report. Technical Reports shall follow the outline presented below.

1. Qualifications of the project team. Describe the project team, their professional credentials, and relevant experience. The description must support that the project team service, equipment, and installation providers have the necessary professional credentials, licenses, certifications, and/or relevant experience to develop the proposed project.
2. Agreements and permits. Describe the necessary agreements and permits required for the project and the anticipated schedule for securing those agreements and permits. For example, interconnection agreements and purchase power arrangements are necessary for all renewable energy projects electrically interconnected to the utility grid. The applicant must demonstrate that the applicant is familiar with the regulations and utility policies and that these arrangements will be secured in a reasonable timeframe.

3. Energy or resource assessment. Describe the quality and availability of the renewable resource, and an assessment of expected energy savings through the deployment of the proposed system or increased production created by the system.
4. Design and engineering. Describe the intended purpose of the project and the design, engineering, testing, and monitoring needed for the proposed project. The description must support that the system will be designed, engineered, tested, and monitored so as to meet its intended purpose, ensure public safety, and comply with applicable laws, regulations, agreements, permits, codes, and standards. In addition, the applicant must identify all the major equipment that is proprietary equipment and justify how this unique equipment is needed to meet the requirements of the proposed design.
5. Project development. Describe the overall project development method, including the key project development activities and the proposed schedule for each activity. The description must identify each significant historical and projected activity, its beginning and end, and its relationship to the time needed to initiate and carry the activity through to successful project completion. The description must address applicant project development cashflow requirements.
6. Project economic assessment. Describe the financial performance of the proposed project. The description must address project costs, energy savings, and revenues, including applicable investment and production incentives. Such financial performance must include, but is not limited to, administrative and general, fuel supply, operations and maintenance, product delivery and debt service. Revenues to be considered must accrue from the sale of energy, offset or savings in energy costs, byproducts, and green tags. Incentives to be considered must accrue from government entities.
7. Equipment procurement. Describe the availability of the equipment required by the system. The description must support that the required equipment is available and can be procured and delivered within the proposed project development schedule.
8. Equipment installation. Describe the plan for site development and system installation, including any special equipment requirements. In all cases, the system or improvement must be installed in conformance with manufacturer's specifications and design requirements, and comply with applicable laws, regulations, agreements, permits, codes, and standards.
9. Operations and maintenance. Describe the operations and maintenance requirements of the system, including major rebuilds and component replacements necessary for the system to operate as designed over the design life. All systems or improvements must have an Agency approved warranty as to length and terms. The warranty must cover and provide protection against both breakdown and a degradation of performance. The performance of the renewable energy system or energy efficiency improvement must be monitored and recorded as appropriate to the specific technology.

10. Dismantling and disposal of project components. Describe a plan for dismantling and disposing of project components and associated wastes at the end of their useful lives. The budget for and any unique concerns associated with the dismantling and disposal of project components and their wastes must also be described.

If you have any questions, please contact Joseph Ben-Israel, Director, Guaranteed Loan Division or Chad Parker, Director, Direct Loan and Grant Division, Community Programs, by phone at (202) 720-1490 or by fax at (202) 690-0471.