

## Co-ops Pushing Renewable Energy

**By David Jacobson**

From the halls of Congress to the town halls of the presidential race, climate change is in the air and with it comes an escalating demand for more sources of renewable energy. At last count, 26 states had adopted renewable energy mandates. At the national level, Congress is considering imposing a national renewable portfolio standard.

Standing, if not at the center of this debate, then well within its reach, are the more than 900 consumer-owned rural electric cooperatives that provide energy to a broad swath of the country and its residents.

Rural electric cooperatives harken back to the New Deal in the 1930s. They arose from the establishment of the Rural Electrification Administration in 1935 and the subsequent passage in 1936 of the Rural Electrification Act.<sup>1</sup> The Act was designed to furnish electricity to rural and agricultural areas of the country that were not served by centralized stations. It helped establish consumer-owned rural electric cooperatives

throughout the country by, among other things, setting up favorable financing for the development of electricity generation and distribution in rural areas.<sup>2</sup>

The success of these efforts carried out over the last 70 years is evident today: Electric cooperatives serve 40 million customers in 47 states, many of them in otherwise underserved regions.<sup>3</sup> Nationally, they own and maintain 42% of the electric distribution lines and deliver 10% percent of the total kilowatt hours sold in the country.<sup>4</sup> In Washington, electric cooperatives and mutual electric companies serve 25% of the state and more than 280,000 customers.<sup>5</sup>

Rural electric cooperatives are known for their close ties to and activism in the communities they serve. They have a natural affinity for community-oriented projects. In respect to renewable energy projects, it has been noted that “[m]any electric cooperatives are ideally located to take advantage of opportunities to generate power from primarily rural resources.”<sup>6</sup>

In 2007, cooperatives received 11% of their power from renewable sources. By comparison, the nation’s entire electric utility sector received 9% of its power from renewable sources.<sup>7</sup>

In Washington, hydroelectric power is, of course, dominant, and the Washington Rural Electric Cooperative Association is on record as in favor of recognizing it as a renewable source.<sup>8</sup> But cooperatives are, nonetheless, actively developing other renewable energy sources, including, in particular, wind power.

The White Creek Wind Project is the most notable example. Cooperatives are centrally involved in this project, which is the largest of its kind in the country. White Creek began construction in July 2006 and had 89 towers producing electricity by November 2007. It is expected to power an estimated 38,000 residences.<sup>9</sup> Cooperatives also are involved in initiatives to develop solar and tidal power.

Financing renewable energy projects can, however, be challenging. The National Rural Electric Cooperative Association has pointed out that renewable generation capacity is significantly more expensive to install than conventional generation.<sup>10</sup> Complicating the issue further is the fact that the costs of renewable energy do not appear to be transparent. A recent Standard & Poor's article discussing the credit implications of renewable portfolio standards notes that "the feasibility and costs ramifications" of renewable energy generation remain hidden.<sup>11</sup>

The article goes on to note "the lack of verifiable cost data" relating to construction of renewable sources of energy.<sup>12</sup> Indeed, the authors suggest that renewable standards legislation may be popular precisely because there is so "little price transparency."<sup>13</sup> They question whether state legislatures that are imposing these mandates "understand the full cost impact of the RPS programs."<sup>14</sup>

Not all rural electric cooperatives are subject to renewable portfolio standards. But cooperatives still must address the difficulties associated with financing renewable energy projects. Not only are the costs of constructing renewable generation sources potentially higher than those of conventional sources, but it appears likely that the full costs are not known.

Insofar as cooperatives are either required to or choose to develop renewable energy sources, they confront the same financing challenges as investor-owned and other for-profit companies. Hence, "[w]ithout tax incentives comparable to those already provided other electricity generators, renewable generation is simply unaffordable for most electric cooperatives' member-owners."<sup>15</sup>

Such tax incentives have been available. Just as the Rural Electrification Act provided favorable financing for the original development of electric cooperatives, Congress included a program in the Energy Policy Act of 2005 (EPA) to help electric cooperatives maximize their potential to develop renewable energy sources. To spur development of renewable sources, the EPA established Production Tax Credits (PTC) that apply to the

for-profit energy sector and Clean Renewable Energy Bonds (CREB) to provide a financial tool for non-profit cooperatives. CREBs allow cooperatives to issue tax credit bonds, where the federal government pays the interest on the bond to the bondholder through a tax credit. The bondholder can deduct the tax credit from their tax obligation.

The response to the CREB program has been enthusiastic. Through January 1, electric cooperatives had submitted 85 applications requesting a total of \$554 million in bond authority. Seventy-eight cooperatives in 22 states received bond allocations.<sup>16</sup>

CREBs, of course, represent only one means of meeting the financial challenge of developing renewable sources of energy, but they are an important financial tool. It might appear surprising then that Congress has for the moment backed off of the tax credit incentives in the EPA. The final version of the Energy Independence and Security Act of 2007 fails to extend PTCs and drops funding for CREBs.

Representatives of the National Rural Electric Cooperative Association do not consider the issue finally resolved.<sup>17</sup> Until it is, however, there is concern that any lapse in funding will create a “bottleneck of projects” awaiting funding.<sup>18</sup> It remains to be seen how Congress will act in this election year.

There is little question, however, that the need to develop renewable energy sources is here to stay. It is “everyone’s business and everyone’s concern,” writes Tom Vilsack, the former governor of Iowa and current co-chair of the Council on Foreign Relations Independent Task Force on Climate Change.<sup>19</sup> Given cooperatives’ role in the country’s energy supply system, this statement certainly applies to rural electric cooperatives, which already are quite active in the country’s shift to renewable energy.

1 History of Electric Co-ops, National Rural Electric Cooperative Association (NRECA) Web site at <http://www.nreca.org/AboutUs/Co-op101/CoopHistory.htm>.

2 Our History, Washington Rural Electric Cooperative Association (WRECA) Web site at <http://www.wreca.coop/about/history.htm>.

- 3 NRECA Overview, NRECA Web site at <http://www.nreca.org/AboutUs/Overview.htm>.
- 4 Co-ops by the Numbers, NRECA Web site at <http://www.nreca.org/AboutUs/Co-op101/CooperativeFacts.htm>.
- 5 About US, WRECA Web site at <http://www.wreca.coop/about/about.htm>.
- 6 Clean Renewable Energy Bonds: Comparable Renewable Generation Incentives, NRECA Fast Facts, p. 1 (January 11, 2008), found at NRECA Web site at <http://www.nreca.org/Documents/PublicPolicy/FFCleanRenewableEnergyBond.pdf> .
- 7 Co-ops and Renewable Energy, NRECA Web site at <http://www.nreca.org/AboutUs/Co-op101/coopsandrenewables.htm>.
- 8 Electric Energy, Policy Position of the WRECA (January 30, 2007), found at WRECA Web site at <http://www.wreca.coop/issues/Electric%20Energy%20Policy.pdf>.
- 9 White Creek Wind Project Fact Sheet, December 2007), Cowlitz County PUD Web site at [http://www.cowlitzpud.org/pdf/WC\\_Q&A\\_07.pdf](http://www.cowlitzpud.org/pdf/WC_Q&A_07.pdf).
- 10 Clean Renewable Energy Bonds, supra, note 6.
- 11 The Race for the Green: How Renewable Portfolio Standards Could Affect U.S. Utility Credit Quality, Standards & Poor Ratings Direct Analyst Report, p. 2 (March 10, 2008).
- 12 Id. at 4.
- 13 Id.
- 14 Id.
- 15 Clean Renewable Energy Bonds, supra, note 6.

16 Id. at 2.

17 Failure of Congress to Extend Clean Renewable Energy Bond Program Will Stymie Growth of Green Power in Rural Communities (January 28, 2008), NRECA Web site at <http://www.nreca.org/main/NRECA/PublicPolicy/issuespotlight/20080128CREB.htm>.

18 Id.

19 Thomas Vilsack, "Climate Change Requires the Attention of Everyone," Des Moines Register, January 27, 2008 at <http://www.desmoinesregister.com/apps/pbcs.dll/article?AID=2008801270311>.

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