The Inflation Reduction Act: The Greatest Investment in Rural Electrification Since the Rural Electrification

Chris McLean, *The Rural Utilities Service*

Moderator: Michael Knapp, *Sandhills Energy*

Nebraska Wind & Solar
CONFERENCE & EXHIBITION

Presented by
Christopher A. McLean
Assistant Administrator
Electric Programs, Rural Utilities Service

Rural Utilities Service Overview and Updates

USDA Rural Development
U.S. DEPARTMENT OF AGRICULTURE

A New Deal Agency With a 21st Century Mission

- 1933 Tennessee Valley Authority Act
- 1935 Rural Electrification Administration Created by Executive Order
- 1936 Rural Electrification Act
- 1949 Telephone Amendments
- 1993 REA + FmHA become RUS
- 2002 Broadband Amendments

The Inflation Reduction Act of 2022
The Greatest Investment in Rural Electrification since the New Deal

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USDA Rural Development
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Investing in Rural America

Clean, affordable, reliable energy

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Amazing Investments in New Clean Energy Technologies through the IRA, IIJA and Rescue Acts

First time Direct Pay Tax Credits for Coops, Munis, Tribal and non-profits

Consumer oriented tax credits for EVs, energy efficiency and renewable energy

RUS Utility focused incentives

ReConnect Broadband Loans and Grants

RBCS – Rural Energy for America (REAP) & Bio-fuels

DOE Loans and Grants

EPA Grants

Rural Utilities Service - Inflation Reduction Act

Two New Programs:

Powering Affordable Clean Energy
(PACE)
IRA Section 22001

Empowering Rural America
(New ERA)
IRA Section 22004

- Largest investment in rural electrification since 1936.
- **BRAND NEW** grant, loan, loan modification, and partial loan forgiveness programs to expand clean, affordable, and reliable energy.
- Reduced pollution, improved health, and lower energy costs for rural America.
- Once in a generation opportunity for economic development and to enhance the quality of life in rural communities.

Powering Affordable Clean Energy (PACE)

Program Overview

Program Goal: Increase clean energy in rural America and make it significantly more affordable for consumers, especially for energy, distressed, disadvantaged, and Tribal communities, to heat and cool their homes, run their businesses and farms, and power their cars, schools, and hospitals.

PARTIALLY FORGIVABLE LOANS for utility-scale clean energy projects – wind, solar, hydropower, biomass, geothermal – including energy storage projects in support of renewable technologies.

Proposed Timeline/Process: (2 stage process)

a) Electronic submission of Letter of Interest – **open July 10, 2023, through September 29, 2023**

b) LOIs accepted on a rolling basis and evaluated as received

c) If invited by the Agency, applicant submits full application

Empowering Rural America (New ERA)

Program Overview

$9.7 billion in budget authority for the long-term **resiliency, reliability, and affordability** of rural electric systems to achieve the **greatest reduction** in CO2, methane, and nitrous oxide emissions.

Eligibility: Electric cooperatives that are or have been RUS or REA borrowers, cooperative entities serving a predominantly rural area, or wholly or jointly owned subsidiaries of such cooperatives.

Activities Supported

- Purchase of renewable energy
- Renewable energy systems
- Zero-emission systems
- Carbon capture and storage systems
- The deployment of such systems
- Energy efficiency improvements to generation & transmission systems of eligible entities
- Any combination of the above

Permitted Use of Funds

- Grants – maximum 25 percent of project cost
- Loans fixed at 2 percent or at a rate tied to the Federal government's cost of capital; and 0 percent for predominantly distressed, disadvantaged or energy communities
- Refinance debt for a stranded assets at 0 percent interest in certain instances
- Any combination of the above

Selection Criteria

Scoring Matrix:
Annual tons of CO_2e reduced (self-generated or purchased): **up to 30 points**
Annual tons of CO_2e avoided: **up to 10 pts**
Percentage increase in renewable energy in the energy mix (owned and purchased): **up to 10 pts**
Percentage decrease in the carbon intensity of the energy mix (owned and purchased): **up to 10 pts**

Applicants will be provided the Achievable Reduction Tool (ART) to calculate GHG reductions.

- **Reliability, Resiliency, and Affordability**:
  - All plans must be reliable and resilient.
  - All plans must be affordable.

- **Other factors for consideration:**
  - Consumer and community benefits
  - Geographic diversity of awards
  - The project cost per unit of GHG reduction
  - Utilization of other government benefits
  - Project costs relative to program funding

New ERA's New Ideas

25% Grant!

Stranded Debt Refinancing

Power Purchase Agreement (PPA) financing

Stranded Assets

A sample stranded assets calculator with notes can be found on the RUS IRA website

Stranded Investment Calculation

Stranded Asset Value	$ 1,000,000,000
Stranded Asset Remaining Life Once Asset is Retired (Years)	15
Stranded Asset Loan Interest Rate	5%
Discount Rate	3%
Loan Payment Per Year	12 (Monthly)
Loan Total # Of Payments	180
Loan Period Payment	$ 7,907,936
Stranded Asset Total Loan Payment	$ 1,423,428,528
NPV Stranded Asset Total Loan Payment with Monthly Compounding Per Year, 15 Years	$ 913,644,607
NPV Stranded Asset Value With Monthly Compounding Per Year, 0% Financing, 30 Years	$ 411,986,760
NPV Stranded Asset Total Payment - NPV @ 0%	$ 501,657,847
Minimum Eligible Clean Energy Investment ($1 more)	$ 501,657,848
Eligible Grant Amount (25% of Min. Clean Energy Investment)	$ 125,414,462
Remaining Balance Eligible For Loan (75% of Min. Eligible Clean Energy Investment) at: (a) 0% (b) 2%	$ 376,243,386

Note: This is being provided as a sample to potential IRA applicants. Any request for IRA funding related to stranded assets will need to be reviewed by RUS.

Power Purchase Agreements (PPAs)

Key Principles for PPA Eligibility in New ERA

- PPA must add to your 2022 clean energy baseline.
- New ERA funds must support new clean energy use not already planned and underway.

Eligibility Terms

- PPA executed after 8/16/22 from either a new or operating asset.
- PPA executed prior to 8/16/22, but construction did not start prior to 8/16/22.
- PPAs for 100% clean energy only.
- Only co-ops can apply and joint ventures must include only eligible borrowers.
- Infrastructure costs related to enabling PPA purchase are eligible.
- Ineligible: PPAs for assets already under construction or operational with an existing PPA, costs incurred prior to obligation, PPA exit fees, or violations of contract terms with G&Ts.

Implications of Purchasing Power versus Ownership

- Scoring of LOI via GHG impact is same for ownership versus PPA.
- NEPA or BABAA do not apply because PPAs are financing the purchased power, not the construction of an asset.
- PPA cannot include provisions that use PPA payments toward the ultimate purchase of an asset.

Power Purchase Agreements (PPAs) Continued

Financing Terms

- Up to 20 years using NPV with a 3% discount rate.
- Value of the PPA is the estimate of price for the term of the PPA.
  - If it is a range, the minimum amount will be used.
- Grant of up to 25% of the PPA cost over the term of PPA.
- The remaining 75% can either be covered by the Applicant or a loan with New ERA terms (i.e., 2% or as low as 0% if refinancing)
- Project Loans: security derived from the pledged value of an underlying asset and additional credit support may be required.
- System finance: security is derived from the assets under a mortgage or indenture.
- Funds will be placed into a Deposit Account Control Agreement (DACA) account. Payments will be made to the co-op for expenses related to the capacity and/or energy charges under the PPA.

The Response Has Been Tremendous!

Program	BA Available	Dollars Requested	LOIs
PACE	$1 billion	$12 billion	308
New ERA	$9.7 billion	$43 billion	160

RUS Electric Core Programs

RUS Infrastructure Loan Program

High Energy Cost Grants

313A Guaranteed Underwriter Program

Rural Energy Savings Program

Infrastructure R US!

All things rural electric

- Distribution
- Transmission
- Generation
- Energy Efficiency
- Renewable Energy
- Grid Security
- Smart Grid

313A Financing - $900 million to non-profit financial institutions financing RE Act purpose investments

We are Proud of Our Work with Coops

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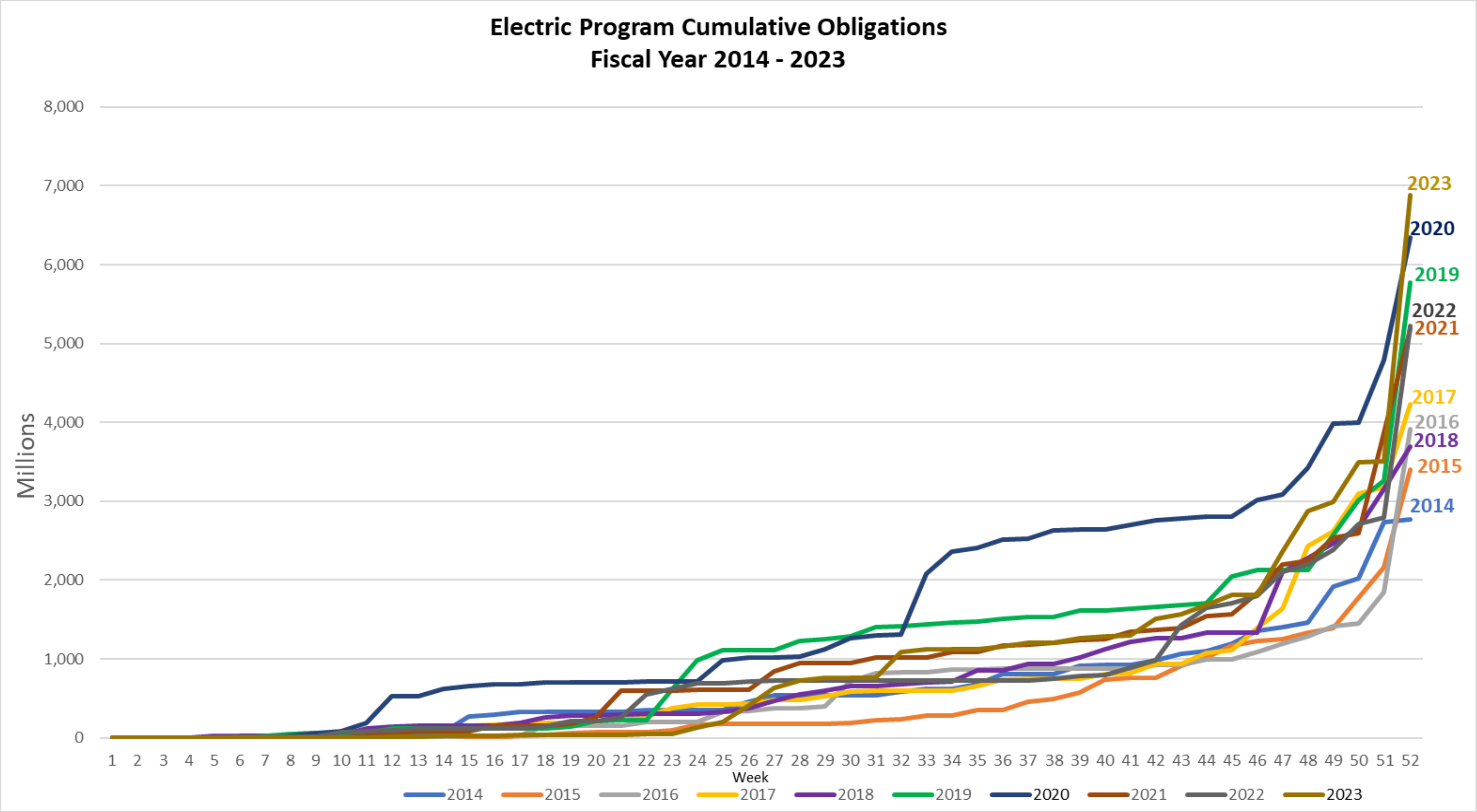
Not Just Coops

- Investor-Owned Utilities (IOUs)
- Developers
- Municipal Utilities
- Tribal Utilities
- Energy Efficiency Entities

Incentive Lender

- Not a lender of last resort
- No statutory maximums
- Prudent, disciplined underwriting
- Projects must be eligible, feasible and securable
- First Lien position on all system/project assets
- Pledge of revenues for tribes and some munis
- Proven technology
- Limited construction risk



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References:
CPAP Database

FY 2023 OLOA Accomplishments – Outcomes

Loans Obligated	FY2023	FY2022	FY2021	FY 2020	FY 2019	FY 2018
No. of Loans (less Lien Accommodations & 313A)	100	117	92	123	108	120
$ Obligated (less 313A)	$5.98 B	$4.48 B	$4.444 B	$5.594 B	$5.05 B	$3.71 B

FY 23 Total Loans Obligated: 102 $6.88 B (5th Consecutive year exceeding $5B)

FY 23 Loans less 313A – (2) 100 $5.98 B

Treasury Loans	51	$1.719 B
Treasury Loans (PP)	27	$2.113 B
FFB Loans	6	$0.612 B
FFB Loans (PP)	4	$1.134 B
Operating Loan (FFB)	1	$0.123 B
RESP Loans	11	$0.202 B

(PP: Persistent Poverty)

HECG and Section 313A Programs

High Energy Cost Grants:

This program assists the Denali Commission in lowering the cost of energy for families and individuals in areas with extremely high per-household energy costs (275% of the national average or higher).

Application Window (open):
September 1 – October 31, 2023

Contact:
Robin Meigel, Financial Specialist
Office of Portfolio Management and Risk Assessment
Email: Robin.Meigel@usda.gov

Section 313A Guarantees Underwriter Program:

Financing - $900 million to non-profit financial institutions financing RE Act purpose investments

FY 2023: Obligated two loans: CFC and CoBank ($450 each)

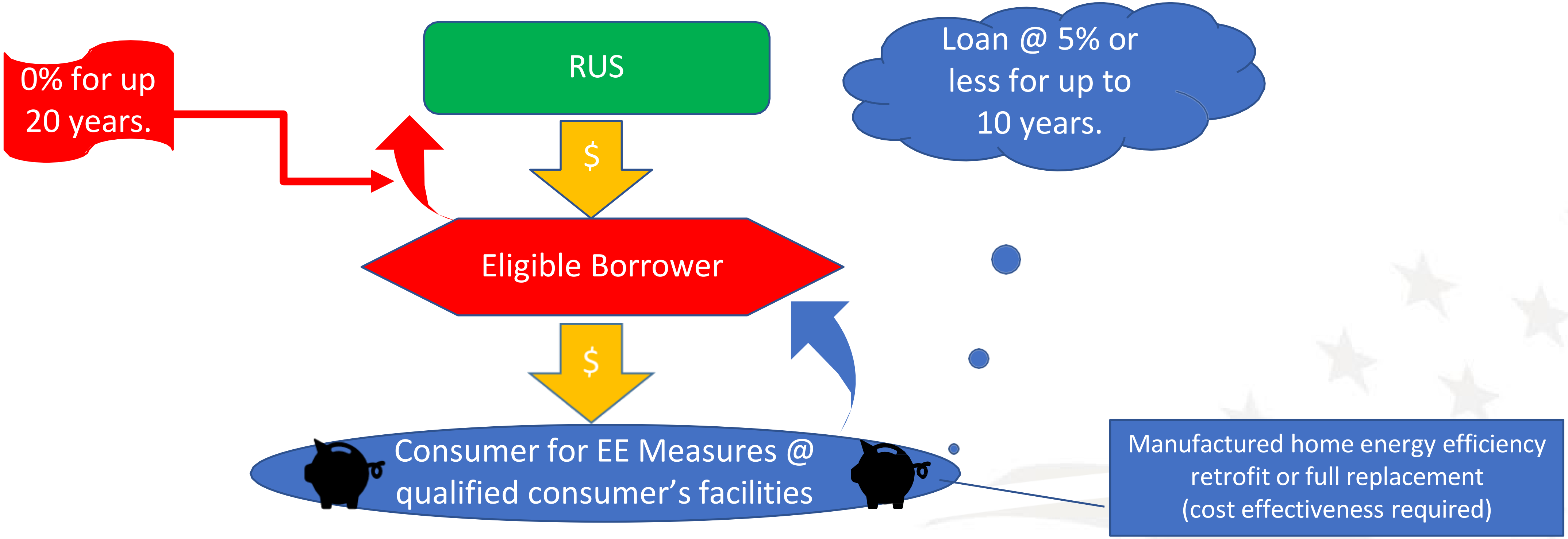
Contact:
Amy McWilliams, Branch Chief, Policy and Outreach
Office of Customer Service and Technical Assistance
Email: Amy.McWilliams@usda.gov

The Rural Energy Savings Program (RESP) at a Glance

- 0% Interest energy efficiency loan program
- Relending program
- 20 years
- 10-year payback period
- 0 to 5% interest to consumer
- 4% Special Advance
- On-Bill financing requirement
    - Many states have passed tariff legislation
- Existing RESP borrowers have very low delinquency rates

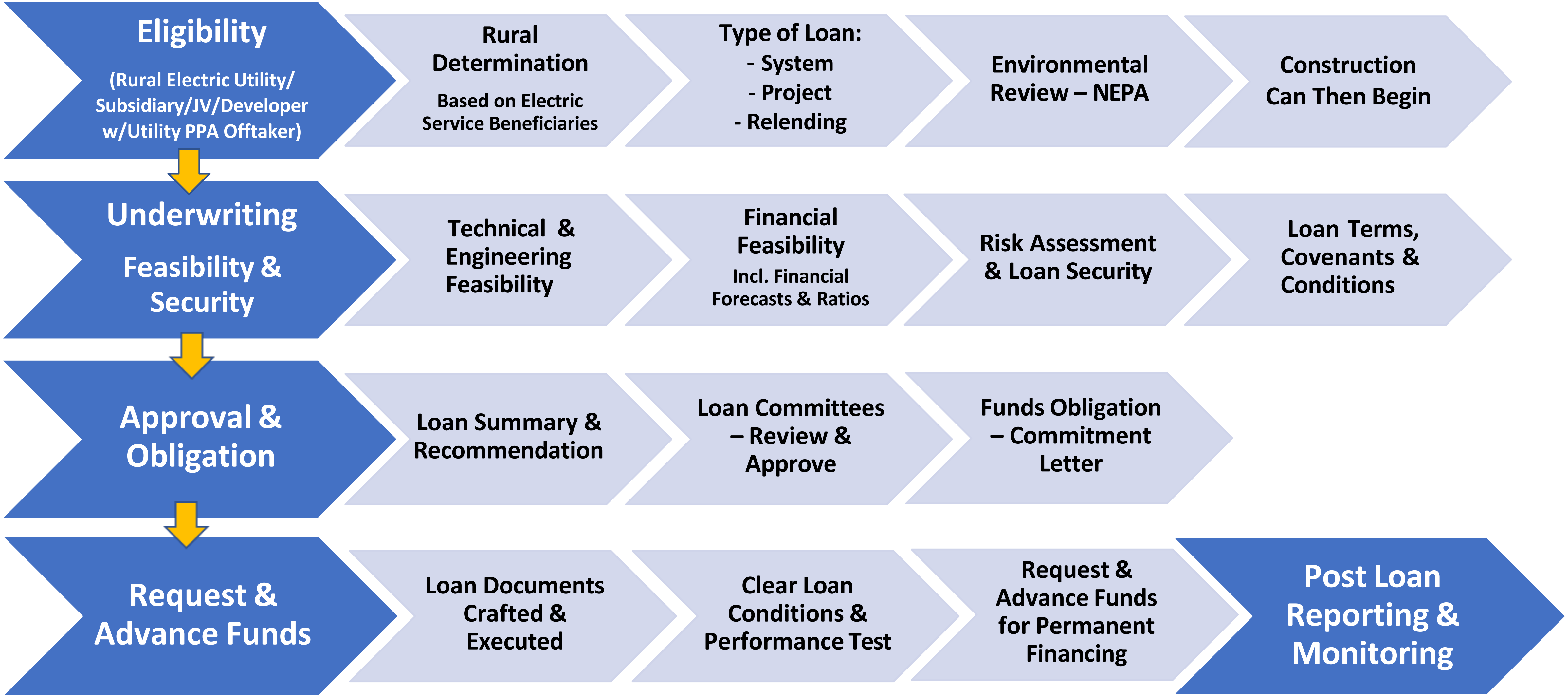
Beneficial electrification is replacing direct fossil fuel use (e.g., propane, heating oil, gasoline) with electricity in a way that reduces overall GHG emissions and energy costs.

RESP Overview



Basic Building Blocks – RUS Electric Program Loan Process

for large capital electric infrastructure projects (G,T & D)



Thank You

Christopher A. McLean

Assistant Administrator
Electric Programs
Rural Utilities Service

Christopher.McLean@usda.gov