

Testimony of  
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Before the United States Senate Finance Committee

August 26, 2003

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## **Introduction**

Good Morning, I am honored and privileged to be able to address the United States Senate Finance Committee. My name is Regi Goodale and I am here today representing the Iowa Association of Electric Cooperatives (IAEC). The IAEC is a trade association representing electric cooperatives in Iowa. On behalf of the member electric cooperatives and the approximately 200,000 homes, farms and industries served by Iowa's electric cooperatives I would like to express our appreciation for the opportunity to present information on this very important topic. I am employed by the IAEC as the Director of Regulatory Affairs.

On Friday August 22, 2003, I submitted 150 hard copies of the written testimony as well as an electronic copy to 721 Federal Building, 210 Walnut Street, Des Moines, Iowa 50309. I ask that my entire testimony be included in the record.

Iowa's locally based, not-for-profit REC's provide electric service to their member-consumer owners in 99 counties within the state of Iowa. Based on kWhs or revenues Iowa's RECs serve about 15% of the \$2.7 billion dollar electric market in Iowa.

The topic of today's hearing is "Rural Economy, Renewable Energy, and the Role of Our Cooperatives".

## **Renewable Energy**

Iowa's RECs are working hard to provide safe and reliable electricity in a very environmentally responsible manner while at the same time keeping the electricity affordable for member-consumers. Providing environmentally responsible power comes in many forms.

Let us start with a common understanding of the concept "renewable energy".

What is renewable energy? The Iowa Department of Natural Resources defines "renewable energy" as "resources that can be naturally replenished, such as wind, solar, biomass and water. The energy from these resources can be converted into electricity, heat or transportation fuel." <sup>1</sup>

Electric cooperatives are involved in a multitude of activities relative to renewable energy in providing electric service to their member-consumers.

Some of the renewable technologies that have been deployed or are being researched include: geothermal, wind, hydro, biomass including methane, corn, biodiesel and walnuts.

Electric cooperatives in the northeast part of the state led the state in first offering customers the option to purchase green energy through green pricing programs. This is merely one example that demonstrates how Iowa's electric cooperatives

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<sup>1</sup> See page 7 of the Iowa Department of Natural Resources 2002 Renewable Energy Resource Guide <http://www.state.ia.us/dnr/energy/pubs/irerg/index.htm>.

are member-consumer and service driven organizations. In 2004 all of Iowa's electric cooperatives are expected to be offering green pricing programs to their member-consumers.

Some cooperatives are investing directly into renewable projects by owning the generators, while others are investing in renewable projects through partnerships with other entities. Yet, others are establishing funds to allow for the promotion of renewable technologies owned by local consumer-members. Another is investigating the purchase of renewable fuel products to be used in generators owned by the cooperative. Flexibility with partnerships as well as approaches in finding cooperative solutions is paramount to moving forward as we see the electric industry change. Providing for tradable tax credits is certainly something that would add to this flexibility in partnerships as well as approaches.

### **Tradable Tax Credits for Rural Electric Cooperatives**

The Energy Tax Incentives Act makes tradable tax credits available to electric cooperatives and publicly owned utilities enabling us to also utilize the financial benefits.

Many rural consumer-owned electric cooperatives and publicly-owned utilities do not have sufficient federal income tax liability against which to apply a tax credit. Therefore, in order for Congress to provide rural electric cooperatives and publicly-owned utilities with useful incentives, we will need the ability to trade or sell our tax credits to private entities that can utilize them.

Because renewable energy sources and environmentally clean, advanced fossil fuel technologies usually are more expensive to operate than traditional sources, the federal government has made it a policy to provide investment incentives to encourage IOUs to build these facilities. The rewards are cleaner, more secure, independent, and diverse energy sources. Without comparable incentives, rural electric cooperatives and publicly owned electric utilities are not afforded the same opportunities to make these investments.

We hope you agree that cost-based power production, such as offered by cooperatives, should also be entitled to incentives associated with the development and implementation of clean coal technology and renewable energy production. Offering incentives that are not usable by this significant segment of the market removes the opportunity to employ the existing capacity of cooperative and publicly owned utilities to deploy their expertise and resources in seeking solutions to the nation's energy challenges. To offer incentives to investor-owned companies and not to consumer-owned cooperatives would place us at a great competitive disadvantage in addressing the energy needs of Iowa and our country.

### **Parallels in Law Supporting Tradable Tax Credits**

There are several provisions in the Tax Code similar to the tradable tax proposal. Exempt organizations can qualify for tax credits by engaging in an unrelated trade or business; however their ability to benefit from the general business credit (the term used to include virtually all credits) is extremely limited. However, some of the

credits are directed toward the economic event targeted in the law as opposed to taxpayer's investing in the property or activity generating the credit. For example,

- Section 41 Research credits are allowed for qualified research expenses paid to tax exempt universities;
- Section 38(b)(3) Alcohol fuel credits apply to the alcohol sold or used as fuel, regardless of the tax status of the producer or user;
- Section 47(a) credit addressing, in part, certified historic structures, allows the credit even though the structure may be used by a tax exempt entity; and
- Sections 613A and 619 provide for the depletion allowance for oil and gas and timber, regardless of the tax status of the owner of the property.

Each of these examples advance the public policy without penalizing any member of the economy that implements the public policy objective. In addition, while not a tax provision, an excellent and parallel example of the Tradable Tax Credit proposal is found in the tradable credits of 1990, 42 U.S.C. section 7651 et seq. The Clean Air Act Amendments of 1990 established a system to issue emission allowances for airborne pollutants, implemented by the Environmental Protection Agency. Electric utilities were issued emission allowances authorizing the emission of a specified amount of airborne pollutants by the utility during a specified calendar year or later period. Starting in 1993, unused allowances may be sold, traded or held in inventory for use against emissions in future years.

### **Rural Economics**

While renewable resources can certainly have economic impacts on the rural economy, other aspects of the electric cooperative's business also have impacts. One critical area is the efficient use of energy. Efficient use of energy is positive from virtually any angle, particularly from a rural economic point of view. Iowa's

electric cooperatives have initiated and implemented programs that encourage the efficient use of the member's resources, the cooperative's resources and our nation's natural resources. Iowa's electric cooperatives are investing about \$6.5 million per year in energy efficiency in some 27 programs. This annual investment has significant environmental and economic benefits in the local communities where we provide service.

Electric cooperatives have in place a streamlined process for the interconnection of member-owned renewable facilities. This is an option available for those member-consumers who want to invest directly in renewable technologies and sell any of their excess output to the cooperative.

Electric cooperatives have a strong commitment to education, and the IAEC has also been working with our member cooperatives and the member consumers with regard to renewable energy. The IAEC has conducted several training sessions for cooperative employees with regard to renewable energy. We have developed a brochure for use with member-consumers and we have run a series of stories in our statewide magazine, the Iowa REC News, addressing renewable energy. We have also partnered with the Iowa Farm Bureau in educating the electric cooperatives and member-consumers about opportunities under the federal farm bill related to renewable energy and energy efficiency.

Leveraging technologies that can impact energy savings is another important approach to this issue. For example, several Iowa RECs are investing in or

investigating automated meter reading technologies. While transportation fuel savings are not the primary driver of such investments, this technology certainly impacts energy savings related to transportation fuels that would be used in vehicles that would otherwise travel the roads each month to read the meters. Having meetings via the internet and other technologies can also save transportation fuel. This becomes particularly relevant when one looks at how spread out the REC customer base is relative to investor-owned utilities or municipal utilities. In Iowa, the RECs average about 3 consumers per mile of line whereas the investor-owned utilities average about 22 and municipal utilities average about 42.

Iowa's RECs are also involved in a multitude of other rural economic development activities through alliances such as the Iowa Area Development Group and participation in the rural economic development loan and grant program.

### **Conclusion**

This overview should give you an idea of some of the activities related to renewable energy and the rural economy that RECs in Iowa have been deploying to deliver electric service. Iowa's locally based, not-for-profit RECs are committed to providing safe, reliable, environmentally responsible and affordable electric service to member-owners. We do appreciate the efforts of Chairman Grassley and others in working to make the tax credits tradable as this will provide another potential option.



Thank you for the opportunity to appear before you today. I would be pleased to answer any questions that you may have.