

## Summary of the Energy Title of the Farm Bill

The 2002 Farm Bill includes a new Energy Title and important new clean energy development provisions in the Conservation and Rural Development Titles. This legislative support for renewable energy development and energy efficiency improvements is a win-win for farmers, rural economic development and the environment. The new Energy Title is now embedded in the overall infrastructure of the Farm Bill. These provisions are a terrific victory for clean energy and sustainable agriculture advocates.

The Farm Bill's new clean energy development provisions in the Energy Title and the Rural Development Title put real money into real programs and move beyond research and analysis. This innovative legislation creates significant new incentives for rural wind power and biomass energy development, and for energy efficiency improvements in the agricultural sector. It transforms the policy recommendations of *Repowering the Midwest* into action in rural communities. It puts into practice ELPC's and our colleagues' longstanding policy views, expressed in *Repowering the Midwest* and other media, that "clean energy cash crops" can provide a new income stream to help support small and medium-sized family farmers and ranchers, enhance rural economic development and create jobs, and improve environmental quality for everyone by avoiding pollution. This is sustainable development in action.

There is \$405 million of mandatory appropriations over six years in the new Energy Title. Half of that amount will fund new clean energy programs, including: direct financial assistance to farmers, ranchers, and rural small businesses for wind power and other renewable energy system purchases and for energy efficiency improvements (\$115 million); appropriations for the Biomass Research and Development Act (\$75 million); a new Federal biobased products purchasing preference program (\$6 million); and a biodiesel fuel education program (\$5 million). The other half will fund the existing Commodity Credit Corporation ("CCC") subsidy program to increase production of ethanol and biodiesel.

In addition, amendments to the Rural Development Title make wind power, other renewable energy sources, and energy efficiency eligible for hundreds of millions of dollars of more funding. For example, farm- and ranch-based renewable energy projects are now eligible under the Value-Added Agricultural Product Market Development Grants program, which has received mandatory appropriations of \$240 million over six years. Renewable energy projects also are eligible for rural development loans, and they have been identified as a priority in the Farm Bill Conference Committee Managers' Statement.

Some of the other provisions of the Senate-passed Clean Energy Title remain in the Farm Bill as authorizations, without mandatory appropriations. The Conference Committee also amended the Conservation Title to allow biomass harvesting and wind turbine installations on Conservation Reserve Program land, and amended the Research Title to provide new emphasis on farm and ranch energy efficiency research.

The key renewable energy and energy efficiency provisions in the Farm Bill, including the new Title IX, are as follows:

## **TITLE IX – THE NEW ENERGY TITLE OF THE FARM BILL**

### **Section 9001 – Definitions**

- “Biobased product” is determined by the Secretary to be a commercial or industrial product (other than food or feed) that is composed, in whole or in significant part, of biological products or renewable domestic agricultural materials (including plant, animal, and marine materials) or forestry materials.
- “Biomass” is any organic material that is available on a renewable or recurring basis including agricultural crops, trees grown for energy production, wood waste and wood residues, plants (including aquatic plants), residues, fiber, animal wastes and other waste materials, and fats, oils, and greases. The statutory definition standard builds upon language in the Biomass Research and Development Act of 2000, and excludes “paper that is commonly recycled” and “unsegregated solid waste.”
- “Renewable energy” is energy derived from a wind, solar, biomass, or geothermal source, and hydrogen derived from biomass or water using a renewable energy source.
- “Rural small business” has the meaning that the Secretary shall prescribe by regulation.

### **Section 9002 - Federal Procurement of Biobased Products**

- Federal agencies are required to give preference to purchasing items containing the highest percentage of biobased products whenever practicable and available, consistent with maintaining a satisfactory competition level, and when the purchase price exceeds \$10,000.

- Within six months after passage of the Farm Bill, the USDA shall establish guidelines designating items that can be produced with biobased products and providing economic and environmental information on the products and items. Within one year thereafter, all Federal agencies shall develop a procurement program designed to assure that items composed of biobased products will be purchased to the maximum extent practicable, consistent with applicable provisions of Federal procurement laws. This does not apply to the purchase of motor vehicle fuels or electricity.
- Establishes a voluntary program under which the Secretary can authorize producers to label their biobased product as a “U.S.D.A. Certified Biobased Product” subject to criteria issued within a year of the enactment of the Farm Bill.
- This program is funded at \$1,000,000 for each year in 2002-2007, to be made available from the Commodity Credit Corporation, in order to support biobased products testing. Other implementation funding is authorized and subject to appropriations. Total: \$6 million.

### **Section 9003 - Biorefinery Development Grants**

- Support for commercialization of new and emerging technologies, including lignocellulosic biomass, for converting biomass into transportation and other fuels, chemicals, and electricity from renewable resources.
- USDA grants made available, on a competitive basis, to fund up to 30% of the development and construction costs of new biorefinery projects.
- No more than 25% of the grantee’s share of the project may consist of in-kind contributions.
- This program is authorized and funding is subject to appropriations.

### **Section 9004 - Biodiesel Fuel Education Program**

- USDA grants for public education on the benefits of biodiesel fuel use by government and private entities operating vehicle fleets and others. Eligible recipients are nonprofit organizations or colleges and universities that have demonstrated expertise in biodiesel fuel production, use, and distribution. This program is funded at \$1,000,000 for each year in 2003-2007, to be made available from the Commodity Credit Corporation. Total: \$5 million.

### **Section 9005 - Energy Audit and Renewable Energy Development Program**

- USDA grants made available, on a competitive basis, for organizations to assist farmers, ranchers and rural small businesses by conducting and promoting energy efficiency audits and renewable energy assessments linked in part to incentives available under Section 9006 (see below) and other financial assistance programs.
- Selection criteria for the grantees include professional qualifications, the geographic scope of the planned programs, the number of farmers, ranchers, and rural small businesses to be

assisted by the program, the potential energy and environmental benefits, and the entity's business plan for educating its customers on the benefits of energy efficiency and renewable energy development.

- Farmers, ranchers, and rural small businesses must pay at least 25% of the cost of an energy efficiency audit.
- The USDA shall submit a report to Congress on program implementation within four years of enactment of the Farm Bill.
- This program is authorized and funding is subject to appropriations.

#### **Section 9006 - Renewable Energy Systems and Energy Efficiency Improvements**

- USDA shall make low-interest loans, loan guarantees, and grants to farmers, ranchers, and rural small businesses to purchase and install renewable energy systems and make energy efficiency improvements. The farmer, rancher, or rural small business seeking a grant must demonstrate need under criteria established by USDA.
- A grant may not exceed 25% of the cost of a project, and a combined grant and loan or guarantee may not exceed 50% of the cost of a project.
- In determining the amount of a grant or loan, USDA shall consider the type of renewable energy system, the quantity of energy likely to be generated, the expected environmental benefits, the extent to which the system is replicable, and the amount of energy savings from energy efficiency improvements and the likely payback period.
- The loan interest rate shall be the interest rate of Treasury securities of comparable maturity.
- The Conference Committee Managers state: "The Managers intend for the Secretary to consider funding energy audits [as] an energy efficiency improvement measure under this section. (See Managers' Statement, page 216).
- This program is funded at \$23,000,000 for each year in 2003-2007. Total: \$115 million.

#### **Section 9007 - Hydrogen and Fuel Cell Technologies**

- The USDA and the Department of Energy are directed to enter into a memorandum of understanding to cooperate in the development and promotion of hydrogen and fuel cell technology programs for rural communities and agricultural producers and to disseminate information on potential applications of hydrogen and fuel cell technologies.

#### **Section 9008 - Biomass Research and Development**

- Extends the authority of the Biomass Research and Development Act of 2000 through September 30, 2007.

- This program is funded at \$5,000,000 in 2002, and \$14,000,000 for each year in 2003-2007, to be made available from the Commodity Credit Corporation. An additional \$49,000,000 is authorized and subject to appropriations each year in 2002-2007. Total: \$75 million.

#### **Section 9009 - Cooperative Research and Extension Projects (Carbon Sequestration)**

- Amends the Agricultural Risk Protection Act of 2000 by authorizing research and development programs for the quantification and measurement of carbon and other greenhouse gases in soil, plants and other agricultural settings.
- Research will focus on carbon losses and gains, the relationship of agricultural practices to carbon sequestration, measuring changes in carbon pools, and the impact of federal conservation programs on carbon sequestration.
- Extension agents and other experts and local organizations may implement projects to monitor the carbon sequestration benefits of conservation practices and the exchange of greenhouse gases from agriculture.
- This program is authorized and funding is subject to appropriations.

#### **Section 9010 - Continuation of Bioenergy Program**

- Authorizes continuation of the Commodity Credit Corporation's payment support program for producers of ethanol and biodiesel (collectively, "bioenergy") derived from corn, wheat, and other agricultural commodities, and cellulosic commodities (such as hybrid poplars and switchgrass), and fats, oils, greases and certain animal byproducts.
- Payments are based on yearly increases of bioenergy production: (1) Each producer of less than 65 million gallons of bioenergy shall be reimbursed 1 feedstock unit for every 2.5 feedstock units of eligible commodities used for increased production (relevant commodity prices are used to calculate amount); and (2) producers of more than 65 million gallons of bioenergy shall be reimbursed 1 feedstock unit for every 3.5 feedstock units of eligible commodities used for increased production.
- No one producer shall receive more than 5% of the total funds available in a fiscal year.
- Up to \$150 million of funding from the Commodity Credit Corporation is made available each year from 2003 to 2006. Total Scored Cost: \$204 million.

## **TITLES II and VI – OTHER CLEAN ENERGY PROGRAMS AND INCENTIVES**

### **Section 2101 - Conservation Reserve Program: Biomass and Wind Turbines on CRP Land**

- Biomass and wind turbine installations are allowed on Conservation Reserve Program lands, pursuant to Section 1232(a)(7) of the Food Security Act of 1985, 16 U.S.C. § 3831, et seq.
- Biomass harvesting must be consistent with soil, water quality, and wildlife habitat conservation. The CRP payments shall be reduced by an amount commensurate with the economic value of the biomass activity.
- Wind turbine installation is subject to USDA approval, taking into account the site location, habitat, and the purposes of the CRP. There is no reduction in CRP payments.

### **Section 6013 - Rural Development Title: Expands Loan Eligibility to Include Renewable Energy Projects**

- Extends loans and loan guarantees under the Consolidated Farm and Rural Development Act to renewable energy systems, including wind energy systems and anaerobic digesters used to produce energy. Solar energy systems were already eligible. Amends Section 310B(a)(3) of the Consolidated Farm and Rural Development Act, 7 U.S.C. § 1932(a)(3).
- Each project is eligible for up to \$25 million in loans.

### **Section 6401 - Rural Development Title: Value-Added Agricultural Product Market Development Grants – Eligibility for Funding Start-Up of Renewable Energy Projects**

- Amends Section 231 of the Agricultural Risk Protection Act of 2000, 7 U.S.C. § 1621 note.
- Expands the definition of the term “value-added agricultural product” to include farm- and ranch-based renewable energy.
- Provides for competitive grants to assist producers of value-added agricultural products, including renewable energy systems, to develop feasibility studies, business plans, and marketing strategies. Recipients also can use the grant to provide capital to establish alliances or business ventures. Maximum grant amount is \$500,000 per project.
- Grants can be used for projects that receive financing for construction costs under the Business and Industry Direct and Guaranteed Loan program (see Section 6017).
- This program is funded at \$40,000,000 for each year in 2002-2007, to be made available from the Commodity Credit Corporation. Total: \$240 million.

## **Section 7207 – Agricultural Research: Energy Efficiency**

- Amends the Agricultural Research, Extension, and Education Reform Act of 1998, 7 U.S.C. § 7623, to include improvement of farm energy efficiency as a priority research area for Precision Agriculture and related farm research programs.

## **ADDITIONAL CLEAN ENERGY DEVELOPMENT PROVISIONS FOR RURAL DEVELOPMENT FINANCING, THE COOPERATIVE EXTENSION SERVICE AND RURAL ELECTRIC COOPERATIVES**

### **Rural Development – Business and Industry Loan Program**

The Conference Committee Managers emphasized that renewable energy projects should receive priority for loan financing under the Business and Industry loan program in Section 310B(g) of the Consolidated Farm and Rural Development Act. (See pages 145-146 of the Managers' Statement.) Loan and loan guarantee limits range from \$25-\$40 million per project.

*The Managers expect the Secretary, to consider on a priority basis, Business and Industry loan and loan guarantee program applications from eligible marketing cooperatives of agriculture producers for the purpose of constructing peanut storage facilities and for value-added agriculture and renewable energy.*

### **Cooperative Extension Service**

Although the Farm Bill does not specifically appropriate funds for technical assistance to farmers and ranchers to develop new renewable energy resources, the Conference Committee Managers' Statement (pages 216 and 226) urged USDA to focus on this issue:

*The Managers encourage the Cooperative State Research, Education, and Extension Service to provide education and technical assistance to agricultural producers for the development of renewable energy resources. Such assistance should enable producers to become more energy efficient and provide for the development and marketing of renewable energy resources. In assisting producers, the Cooperative Extension Service may consult with other entities as appropriate.*

### **Rural Electric Cooperatives**

Although the Farm Bill does not incorporate the Senate's proposal for financial incentives to encourage rural electric cooperatives to develop renewable energy, the Conference Committee Managers' Statement (page 218) urged USDA to provide renewable energy project loans to rural electric cooperatives:

*The Managers encourage the Secretary to use existing authorities to provide loans, loan guarantees and grants to rural electric cooperatives and other electric utilities to promote the development of economically and environmentally sustainable renewable energy projects to serve the needs of rural communities or to promote rural economic development.*

## **CONCLUSION**

The new clean energy and energy efficiency provisions in the Energy Title and other related sections of the 2002 Farm Bill are major steps forward in changing the architecture of the overall legislation. They provide new statutory infrastructure, which can be built upon and improved in subsequent years, just as with the conservation programs. Successful implementation of these programs is now essential. Let's work together to achieve the full potential benefits of these new clean energy development programs.