

**STATEMENT OF TOM BUIS, PRESIDENT
NATIONAL FARMERS UNION**

**BEFORE THE U.S. HOUSE OF REPRESENTATIVES SELECT COMMITTEE ON ENERGY
INDEPENDENCE AND GLOBAL WARMING**

**CONCERNING: THE RENEWABLE ENERGY ECONOMY: A NEW PATH TO INVESTMENT,
JOBS AND GROWTH**

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Good afternoon, Mr. Chairman and members of the committee. I appreciate the opportunity to testify on behalf of the farm, ranch, and rural members of National Farmers Union (NFU). Our policy is created, revised and updated each year at the local, state and national levels, and formally adopted at our annual convention, which concluded two days ago.

Rural America has the unprecedented ability to provide significant amounts of clean, renewable energy including ethanol, biodiesel, and renewable electricity for our nation. Not only does fostering the development of renewable energy move us toward energy independence, it also provides a critical source for rural economic development that is and will continue to significantly jump-start rural economies.

We are already seeing results thanks in part to congressional efforts to enact and expand the Renewable Fuels Standard (RFS). The ethanol industry has grown from a 900 million gallon industry in 1990 to an industry with 143 ethanol bio-refineries in 26 states with a capacity of 8.16 billion gallons of production. In addition, 57 new plants are under construction and seven others are currently under expansion which will add another 5.25 million gallons of annual capacity. Today, ethanol is blended in 50 percent of the nation's gasoline and will soon be blended in 100 percent.

A recent study by LECG, found that in 2007 the ethanol industry added \$47.6 billion to the nation's Gross Domestic Product (GDP), created nearly 240,000 new jobs in all sectors of the economy, and added \$12.3 billion to American consumers' incomes.

These overall numbers only tell part of the story. Not only is the expansion of the ethanol industry helping wean ourselves from foreign oil while benefitting the overall economy, it is having a profound impact on rural economies throughout the nation.

Farmers are receiving a fair return for their commodities by the creation of competition within the marketplace. After years of low prices and reliance on critical farm safety net programs, farmers are now receiving their income from the marketplace. Studies have shown the local price of corn increases by a minimum of \$0.05 to \$0.10 cents per bushel in the area around an ethanol plant. U.S. farmers sold 2.4 billion bushels of corn to ethanol bio-refineries in 2007 valued at \$8.1 billion. That said, farmers produced 10 percent more corn than was needed for all purposes in 2007; with the extra supply being carried over into 2008.

Farmers are not only benefiting from higher prices, but also from local ownership of ethanol production facilities. Farmers and other local investors own 40 percent of the nation's ethanol production. Taken together, these locally owned plants represent the single largest producer of ethanol in the country. While concentration of ownership has increased in every other segment of the agricultural sector, the market share of the four largest ethanol companies has declined from 73 percent in 1999 to 31.5 percent in 2007.

In short, economic opportunities are returning to rural America. A 50 million gallon ethanol plant increases a local community's GDP by \$152.3 million; increases household income by \$40 million; increases local spending by \$56 million; and creates more than 600 new jobs.

NFU believes the success of today's ethanol industry is simply the starting point for producing renewable energy in rural America. We applaud congressional efforts to significantly increase and expand the RFS to speed development of cellulosic ethanol and biodiesel.

We believe it is equally critical for the federal government to help spur the development of the renewable electricity industry and applaud the House of Representatives attempts to enact a Renewable Portfolio Standard (RPS) and extend the renewable energy Production Tax Credit (PTC) during consideration of the Energy Independence and Security Act of 2007. Further, we appreciate efforts to extend the PTC in the Renewable Energy and Energy Conservation Act of 2008, which was approved by the House last week.

Renewable electricity generation from rural America is a largely untapped resource. Study after study indicates that rural America has the potential to supply significant percentages of the United States' energy needs within the next two decades. The U.S. Departments of Agriculture and Energy have found that the United States has the capacity to produce nine billion tons of biomass from farmlands by 2030, which could be used for both electricity generation and cellulosic ethanol production.

Last July, NFU released a report on the economic benefits rural America would realize if 20 percent of electricity consumed in the United States came from renewable sources. Production of electricity from wind would result in rural landowners receiving between \$475 million and \$562 million in payments from wind farm leases. Production of electricity from renewable biomass would result in payments of at least \$25 billion to farmers of these new crops; and \$43.4 to \$66.7 billion in capital would be invested in new clean energy facilities mostly in rural areas.

The type of projects developed also play a critical role in the resulting benefit to rural America. A National Renewable Energy Laboratory (NREL) study compared the benefits of local ownership versus outside ownership and found that locally-owned wind projects generate 2.6 times more jobs and 3.1 times more rural economic benefit than those with outside ownership. Echoing this point, a 2006 study by Oregon State University concluded that local ownership of wind turbines would result in five times the annual projected income versus entering into a land lease agreement. Given this fact, NFU believes federal policies should foster the development of locally-owned projects.

Unfortunately, fully tapping rural America's clean energy potential is not likely to occur without the support of governmental policies. Renewable electricity technologies face many barriers when competing in today's marketplace. While they can stabilize and even reduce long-term energy costs, renewable electricity projects generally have high upfront capital costs and longer payback periods. In some cases, utilities have used their market power to block new renewable energy competitors from entering the market. Renewable energy resources also lack the developed infrastructure of other energy industries which have enjoyed decades of government support.

Community-based wind energy projects face additional hurdles, which are typically smaller in scope than commercial lease-based models because limited capital access. It has become increasingly difficult to procure wind generators and associated equipment for community wind projects due to the size of community based projects and the shift toward large-scale development processes.

Most community wind projects are planned based on available capital and resources provided by community members. In contrast, most commercial scale projects are planned around the economic returns measured by scale; limited access to capital is a secondary consideration. Therefore, most community wind projects are at a competitive disadvantage when attempting to use limited capital investment to develop a site, hire qualified consultants, and procure turbines, towers and rotor blades.

Minimum order requirements for major components are larger than what community wind projects need. As a result, community based projects most often attempt to coordinate procurement efforts with larger developers. This coordination does not guarantee the community wind project the needed components in a timely fashion.

Further, order deposits for equipment are cost-prohibitive for community projects. Most manufacturers require a 25 percent deposit upon placement of the order which must be placed with 18 to 20 month lead time due to the demand placed upon the manufacturers. With turbine costs at nearly \$1.6 to \$1.8 million per unit, most community wind projects do not have the capital to invest in equipment deposits for the required lead time.

Moreover, because the PTC can only be used against passive income, many community based projects are not able to fully utilize the PTC. This is because most interested parties are active farmers and ranchers that own land with potential for wind development yet do not have sufficient levels of passive income necessary to utilize the full PTC. As a result, many potential projects with excellent wind potential are at an economic disadvantage and are unable to compete for Power Purchase Agreements with projects that can fully utilize the PTC.

NFU believes it is critical for federal policy to foster the development of renewable electricity projects and in particular locally-owned community-based projects.

As I have already mentioned, we applaud the House of Representatives' efforts to extend the renewable energy PTC, which provides a two cent/kilowatt-hour credit for electricity produced from renewable sources such as wind. The PTC is set to expire on December 31, 2008. Under current law, the PTC provides the most important federal incentive to continue development of wind projects. Failure to extend it will have significant impact on development. The PTC has unfortunately lapsed on three occasions in the past -- 1999, 2001, and 2003. Each time investment dollars stopped flowing into projects, jobs were lost and the growth of the industry declined. Industry experts indicate a significant decrease in development of new projects will occur before summer if the production tax credit is not extended soon.

We also support expansion of the Clean Renewable Energy Bonds "CREBs" program which is essential to quickly expanding projects in rural America.

NFU believes one of the surest ways to jump-start the renewable electricity marketplace is through enactment of a federal RPS which requires a certain percentage of the market be supplied by new renewable energy. The success of the RFS in spurring the development of the ethanol industry illustrates what a RPS could do for the renewable electricity sector.

NFU supports a RPS that ensures 25 percent of our energy usage comes from renewable sources by 2025 that also includes incentives for local ownership. Ensuring a predictable, steadily growing market will encourage investors to build the manufacturing capability and infrastructure needed to reduce the price of renewable electricity technologies that will help make locally owned wind projects more competitive.

America's family farmers and ranchers are playing a significant role in reducing our nation's dependence on foreign oil by producing fuels from the farm, such as ethanol, and these efforts are revitalizing rural communities across the country. Further developing our wind and bioenergy resources through a RPS would produce a similar, positive outcome for the countryside.

Thank you again Mr. Chairman for the opportunity to testify. I would be happy to answer any questions from committee members.