

Testimony of Buddy Hasten
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United States Senate Committee on Agriculture
“2023 Farm Bill: Perspectives from the Natural State”
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Introduction

Chairwoman Stabenow, Ranking Member Boozman, and members of the Committee, thank you for the opportunity to testify today. On behalf of the Electric Cooperatives of Arkansas, we are grateful for the opportunity to share our perspective and we thank the Committee for their keen interest in the issues facing rural communities across America.

My name is Buddy Hasten and I am the President and Chief Executive Officer of the Arkansas Electric Cooperative Corporation (AECC). Created in 1949 to provide Arkansas electric cooperatives with reliable, affordable power, AECC proudly supplies power to more than 600,000 members of Arkansas’ 17 electric distribution cooperatives. Our mission is to deliver reliable, affordable power responsibly to Arkansas’ electric cooperative member-owners.

Also, I am grateful to be here to share the community-focused perspective of the nearly 900 electric cooperatives across the country. Electric cooperatives deliver power to 1 in 8 Americans in 48 states and 56 percent of the nation’s landscape. We are owned by the people we serve, and we operate with a focus on people, not profits. Together, electric cooperatives share in the mission to provide reliable, affordable energy to rural America.

As the Committee considers the upcoming Farm Bill, there are three key points we respectfully request you consider as you work to reauthorize United States Department of Agriculture (USDA) programs:

- Recent warnings regarding grid reliability should be taken seriously and policymakers should approach energy policy with a primary focus on electric reliability.
- As higher than normal inflation persists, co-ops are advocating for policies to keep energy costs down for rural Americans.
- The USDA provides electric cooperatives a toolbox of useful programs that provide significant return on investment in rural America.

Reliable Electricity in Rural America

Electric cooperatives are committed to keeping the lights on across rural America at a cost that families can afford. As we look to the future, we worry that federal and state policies, as well as market changes, are causing an imbalance of electric supply and demand that jeopardizes our ability to fulfill this commitment. In May, the 2022 Summer Reliability Assessment released by the North American Electric Reliability Corporation (NERC) warned that areas of the Midwest are facing potential capacity shortfalls heading into the summer. The report warned that during

peak demand, even during normal conditions, areas of the Midwest could face forced outages. Put simply, this is because generation capacity has been reduced while peak demand is projected to increase – decreasing supply while increasing demand.

A concerning pattern is forming in which baseload generation is prematurely retired and then replaced primarily by intermittent generation like wind and solar. While these renewable sources of power are important components of responsibly delivering electricity to our member-owners, they have fundamentally different characteristics than the always-available, dispatchable sources we use for baseload generation. Meeting the needs of our members and maintaining high levels of reliability while increasing levels of intermittent wind and solar generation, will require an even greater focus on supporting baseload energy sources such as natural gas, coal, and nuclear energy.

To be clear, this is not about prioritizing one energy source over another. Our focus is whether we will have the diverse tools needed to keep the lights on for American families and businesses. The Electric Cooperatives of Arkansas are committed to a cleaner energy future. Our concern is the ongoing energy transition is moving at a pace that ignores current technological and market realities. Our nation cannot afford to jeopardize the reliability of electricity for the ranches, farms, businesses, and families of rural America. This is doubly true for Arkansas given the fact that we serve members in one of the poorest states in America. When the reliability of the electric grid fails it almost always results in financial catastrophe and loss of human life. And it's important for lawmakers to understand the pivotal role they play in this conversation.

Rural Utilities Service (RUS) Certainty

It would be difficult to overstate the importance of low-cost Rural Electrification Administration (REA) loans to electric cooperatives during rural electrification 80 years ago. The fact of the matter is that today these loans, now administered by RUS, are just as important as they were back then. For electric cooperatives, RUS provides more than just financing, it provides the certainty that the federal government is committed to basic needs in rural America. From a reliability perspective, it is critical that RUS remain a trusted lender for all electric generation options - both baseload capacity as well as intermittent energy sources.

Working to Reduce Costs for Rural Americans at the End of the Line

Rural America's families and businesses rightfully expect the lights to stay on at a price they can afford. For cooperatives, our agenda is not driven by a profit motive. We return any profits back to our member-owners in the communities we serve.

Last year, AECC's revenue surpassed \$1 billion for the first time ever. Most CEOs would celebrate an increase in topline revenue; however, I do not. This increase represents significant cost increases for our members due to many different factors including inclement weather, supply chain disruptions, and high natural gas prices. Our members saw their wholesale power cost increase from \$48.16 in 2020 to \$65.52 in 2021.

In rural America, like other places, the cost of everyday needs has increased over the last year. Our goal as electric cooperatives is to be the exception for our member-owners in times like these and provide predictable, affordable electric rates. This is a constant challenge as many of the rural communities we serve have just a few households per mile compared to other utilities serving more densely populated areas with 30 to 40 households per mile.

Repricing High-Interest RUS Loans

In Arkansas, almost all our electric cooperatives borrow from RUS to build out and maintain our electric utility infrastructure. Roughly 500 cooperatives nationwide hold approximately \$43 billion in RUS Electric Program loans. Unlike a private business loan or typical home mortgage, these RUS loans are unable to be refinanced to current market rates without facing a significant prepayment penalty. For this reason, many electric cooperatives hold high interest debt, despite coming out of a prolonged period of historically low interest rates. Unfortunately, without relief, the cost of the more expensive debt gets passed along to cooperative members.

Only Congress can allow cooperatives to refinance without penalty. In the Senate, there is support for S. 978 – Flexible Financing for Rural America Act and I am grateful, Ranking Member Boozman, for your leadership to introduce it along with Senators Smith, Hoeven, and Sinema. This legislation would allow for a one-time rate adjustment by USDA to current market rates. For electric cooperatives in Arkansas, this would yield over \$100 million in future savings for our member-owners.

Comparable Federal Incentives for Energy Innovation

As non-profit businesses, electric cooperatives do not have access to the same energy innovation tax incentives as for-profit businesses which hinders our ability to implement innovative technologies. Many newer, cleaner technologies are attractive to rural utilities. We serve the areas where you are most likely to see expansive solar farms or clusters of wind turbines; however, we are handcuffed by the tax code and the significant capital expenses required to deploy innovative technologies.

Electric cooperatives should have access to the same incentives as our for-profit industry peers. Currently, to reap any of the federal incentives for clean energy investments, from renewables and energy storage to carbon capture and advanced nuclear, cooperatives must contract with third parties eligible to capture the tax incentives. This process is burdensome, expensive, and can carry risk. Ultimately it raises the risk and cost for cooperatives and supplants non-profit cooperatives from building and operating these technologies with for profit companies that ultimately raises the cost for rural Americans. If cooperatives had comparable incentives and could receive the full value of the tax credits through a direct payment, we could more aggressively pursue development of emerging energy source asset development.

Rural Energy Savings Program (RESP)

Created by the 2014 Farm Bill, RESP is a program for rural energy providers to finance energy efficiency upgrades in rural homes through zero interest loans from USDA. Each dollar of

federal appropriations translates to zero interest loans worth about \$20. RESP is a mutually beneficial program that lowers energy bills for rural Americans, reduces energy use, and smartly leverages USDA resources.

In Arkansas, three of our state's distribution cooperatives – Woodruff Electric Cooperative, Ouachita Electric Cooperative, and North Arkansas Electric Cooperative - are utilizing RESP. Additional Arkansas cooperatives are currently engaged in the application and approval process with USDA or actively exploring the possible benefits it could provide for their members at the end of the line. For Arkansas cooperatives, RESP is a useful tool to lower power bills for Arkansas families while also reducing the amount of energy needed to power our state.

RESP projects can be large undertakings for cooperatives. The administrative resources needed to oversee the retrofitting of a significant number of rural homes can be a barrier for some cooperatives. Especially, considering electric cooperatives serve 92% of the persistent poverty counties in America. As the Committee considers reauthorization of this program, consideration of adding a grant component of the program, like similar programs at USDA, would ease the burden on electric cooperatives and allow for continued work in rural communities.

USDA Toolbox

Electric Cooperatives Expanding Rural Broadband

Broadband access remains a top priority for many rural electric cooperatives as well. From supporting our farmers and ranchers as they utilize more precision agriculture technology, to ensuring that rural schools and businesses aren't left behind, a reliable, high-speed broadband connection is essential for modern life.

In response to growing demand, several electric cooperatives began deploying fiber to their members, drawing similarities in the need for an internet connection to when electricity was needed in rural areas back in the 1930s. Today, 14 of Arkansas' 17 electric cooperatives are deploying fiber in their rural service territories, connecting thousands of rural consumer-members. Building on that success, 13 of those co-ops recently banded together to create Diamond State Networks, a wholesale broadband provider aiming to connect rural Arkansans with gigabit level internet service. Once completed, the network will include an operational fiber ring that will cover more than 64% of the state's land mass, include more than 50,000 miles of fiber lines, and connect thousands of rural customers with vital services.

Beyond just an internet connection, this fiber network will also support ongoing efforts to increase the reliability, sustainability, and safety of the electric grid. Electric cooperatives across the state deploy automated metering systems, energy efficiency and demand response programs, and grid monitoring systems that require real-time communication for electric utility management. By leveraging these smart grid features, Arkansas electric cooperatives can reduce overall costs while improving response times in the event of an outage, increasing operational efficiency, and ensuring that resources are effectively managed to meet customer demands.

Both RUS electric program loans as well as ReConnect provide tools that cooperatives can use to continue the important work of deploying fiber broadband connections to rural Americans, while supporting the reliability, operational efficiency, and functionality of the electric grid. As Congress begins to think about the next Farm Bill, ensuring that these programs are flexible and streamlined will allow electric cooperatives to deploy fiber resources as quickly and efficiently as possible.

Rural Economic Development Loan and Grant Program (REDL&G)

Owned by the communities that we serve, electric cooperatives have a vested interest in the success and safety of our people and places. Programs like REDL&G allow for us to stretch our reach in the community with benefits beyond electrification. Through REDL&G, cooperatives identify certain community needs and opportunities like public services or small businesses and partner with the USDA to offer low interest loans through the electric cooperative. This program helps cooperatives fill some of the investment gaps we many times see hinder development in rural communities. We urge Congress to maintain its strong commitment to this program.

Rural Energy for America Program (REAP)

The Rural Energy for America Program (REAP) provides loans and grants to develop renewable energy systems and implement energy efficiency measures to benefit rural economies. Electric cooperatives have used REAP grants to partially finance community solar projects. We encourage you to continue to provide robust funding for the REAP program in the next Farm Bill.

Conclusion

In closing, I would like to thank the Chair and Ranking Member for the opportunity to share the perspective of the Electric Cooperatives of Arkansas. Our mission is to provide reliable, affordable power responsibly to 600,000 Arkansas farms, ranches, businesses, and homes. We see the federal government as a critical partner in our mission and have since rural electrification began 80 years ago. As the Committee considers the upcoming Farm Bill, we look forward to working together in our shared goal of powering and improving the lives of rural Americans. I am happy to answer any questions you may have.