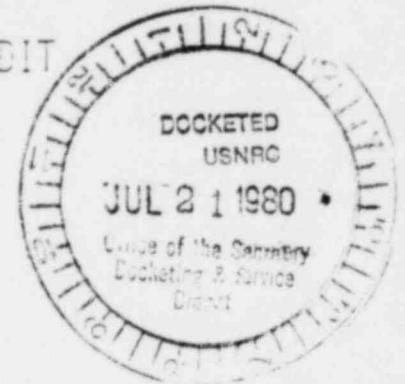


STATEMENT OF  
DAVID L. OSTENDORF  
ENERGY PROJECT DIRECTOR  
RURAL AMERICA

RELATED CORRESPONDENCE

BEFORE SUBCOMMITTEE ON CONSERVATION AND CREDIT  
COMMITTEE ON AGRICULTURE  
UNITED STATES HOUSE OF REPRESENTATIVES  
MARCH 19, 1980



MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, MY NAME IS DAVID OSTENDORF AND I AM ENERGY PROJECT DIRECTOR OF RURAL AMERICA, A NATIONAL MEMBERSHIP ORGANIZATION THAT WORKS WITH AND PROVIDES ASSISTANCE TO LOCAL RURAL GROUPS THROUGHOUT THE NATION ON ISSUES RELATED TO HOUSING, HEALTH CARE, ENERGY, LAND AND OTHER RURAL MATTERS.

I WISH TO THANK YOU FOR INVITING RURAL AMERICA TO PRESENT TESTIMONY ON ENERGY CONSERVATION AND WEATHERIZATION IN RURAL AREAS, WITH PARTICULAR FOCUS ON THE EFFORTS OF THE RURAL ELECTRIFICATION ADMINISTRATION. OUR MEMBERS HAVE LONG BELIEVED THAT ENERGY CONSERVATION, INCLUDING HOME WEATHERIZATION, IS THE CORNERSTONE OF SOUND ENERGY POLICY AND IS OF VITAL IMPORTANCE TO THE LOW-INCOME PEOPLE OF RURAL AREAS WHO ARE OUR ORGANIZATION'S PRINCIPAL CONCERN. AS WELL, OUR ORGANIZATION HAS BEEN A LONG-STANDING SUPPORTER OF THE PRINCIPLE OF CONSUMER-OWNED, NON-PROFIT ENERGY COOPERATIVES.

THE DATA AND STATISTICS SUPPORTING THE NEED FOR A MASSIVE ENERGY CONSERVATION AND WEATHERIZATION PROGRAM ARE BY NOW WELL-ESTABLISHED AND WELL-KNOWN, AND IN RECENT MONTHS RURAL AMERICA HAS TESTIFIED

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BEFORE SEVERAL SENATE AND HOUSE SUBCOMMITTEES ON THE MATTER. BUT I WOULD REITERATE TODAY THAT THE NEED FOR STRONG CONSERVATION AND WEATHERIZATION PROGRAMS IN RURAL AREAS IS GREAT, GIVEN THAT 40% OF THE NATION'S POOR LIVE IN NON-METRO AREAS AND 50% OF THE NATION'S SUBSTANDARD HOUSING IS FOUND IN RURAL AMERICA. OF ALL SUBSTANDARD HOUSING UNITS INHABITED BY ELDERLY PEOPLE, OVER HALF ARE IN RURAL AREAS. AND FOR MINORITIES, THE CHANCE OF BEING COUNTED AMONG THESE GROUPS IS SIGNIFICANTLY INCREASED.

TODAY I WILL FOCUS MY REMARKS ON THE CONSERVATION AND WEATHERIZATION PROGRAMS AND EFFORTS OF RURAL ELECTRIFICATION ADMINISTRATION AND ITS MEMBER CO-OPS. WE COMMEND AND ARE HEARTENED BY THE CONSERVATION AND WEATHERIZATION PROGRAM ANNOUNCED TWO WEEKS AGO BY THE REA ADMINISTRATOR-- A PROGRAM THAT WILL PROVIDE NEW INCENTIVES AND LOW-INTEREST LOANS FOR HOME WEATHERIZATION AND DEVELOPMENT OF RENEWABLE SOURCES FOR ELECTRIC POWER GENERATION IN RURAL AREAS.

THE ADMINISTRATOR'S DECISION TO EXERCISE HIS AUTHORITY UNDER SECTION 12 OF THE RURAL ELECTRIFICATION ACT OF 1936 TO DEFER PRINCIPAL PAYMENTS FOR DISTRIBUTION SYSTEMS FOR RE-LENDING TO THEIR MEMBERS FOR WEATHERIZATION IS CLEARLY A SIGNIFICANT STEP FORWARD. AS WELL, THE ADMINISTRATOR'S SUPPORT OF EFFORTS TO MAKE REA LOANS AVAILABLE TO FINANCE "STUDY OF FEASIBILITY OF PROJECTS, FOR LICENSING, AND OTHER EARLY COSTS ASSOCIATED WITH INITIATING ENERGY-PRODUCING PROJECTS" MAY WELL HELP LAUNCH REA FINANCED SYSTEMS INTO A NEW ERA OF DEVELOPMENT OF RENEWABLE OR SUPPLEMENTAL SOURCES OF ENERGY BEYOND THOSE OF LARGE-

SCALE, CENTRALIZED, CONVENTIONAL POWER PLANTS. THESE STEPS, ALONG WITH RECENTLY ANNOUNCED DOWNTURNS IN KILOWATT-HOUR SALES GROWTH IN THE REA-FINANCED SYSTEMS, PROVIDE SOME NEW SIGNS OF HOPE FOR RURAL AMERICANS SERVED BY THE CO-OPS.

STILL, OUR ORGANIZATION REMAINS UNCONVINCED THAT THE PROVERBIAL CORNER HAS BEEN TURNED IN THIS NEW DRIVE FOR CONSERVATION AND WEATHERIZATION. IN TESTIMONY BEFORE THE SENATE SUBCOMMITTEE ON RURAL DEVELOPMENT LAST NOVEMBER, WE CRITICIZED THE FARMERS HOME ADMINISTRATION AND THE REA FOR THE FAILURES OF THEIR WEATHERIZATION PROGRAM LAUNCHED IN MARCH OF 1977. THIS VOLUNTEER PROGRAM WAS EXPECTED TO WEATHERIZE SOME 4 MILLION HOMES, USING SOME \$1 BILLION IN LOANS TO HOMEOWNERS. BUT FROM FISCAL YEAR 1977 THROUGH FISCAL YEAR 1979, ONLY \$946,000 OF THAT MONEY HAD BEEN TAPPED TO WEATHERIZE 1,072 HOMES. NEEDLESS TO SAY, NEITHER FARMERS HOME NOR REA WERE PLEASED WITH THE FINDINGS WE PRESENTED IN THAT TESTIMONY, PARTICULARLY AFTER THE NEW YORK TIMES RAN A STORY ON THE MATTER. YET, THE AGENCIES HAVE NOT DISPUTED OUR CHARGES.

SOME 53% OF THE REA LOANS MADE IN 1979 WERE THROUGH ARKANSAS POWER AND LIGHT, A PRIVATELY-OWNED UTILITY THAT GOT IN ON THE ACTION WHEN THE PROGRAM WAS EXPANDED TO THE PRIVATE UTILITIES. IN A RECENT INTERVIEW, A REPRESENTATIVE OF THAT UTILITY ATTRIBUTED THE SUCCESS OF THE PROGRAM TO EXTENSIVE PROMOTION AND THE BENEFITS OF SIGNIFICANT SAVINGS OFFERED TO ITS CUSTOMERS THROUGH THE PROGRAM.

IN A WIDELY-PUBLICIZED DOCUMENTATION OF REA SUCCESS IN ENERGY CONSERVATION AND WEATHERIZATION IN 1979, THE NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION STATED IN JANUARY OF THIS YEAR THAT 254 SYSTEMS

REPORTED LOANS TOTALING MORE THAN \$5.5 MILLION. THE NRECA DID ADMIT THAT "THE BULK OF THESE LOANS WERE MADE BY SYSTEMS IN THE TENNESSEE VALLEY AREAS, WHERE A TVA-INITIATED PROGRAM WHICH INCLUDES NO-INTEREST LOANS HAS BEEN TREMENDOUSLY SUCCESSFUL." BUT THE NRECA DID NOT REPORT THAT THIS "BULK" OF LOANS IN THE TVA AREA COMPRISED \$4.8 OF THE \$5.5 MILLION-- OF 87% OF THE TOTAL AMOUNT LOANED. THE REST-- SOME HALF-MILLION DOLLARS FOR THE CALENDAR YEAR-- WAS MADE IN SOME 562 LOANS TO 223 OTHER NON-TVA SYSTEMS.

THE POINT OF THIS IS NOT TO OPEN OLD WOUNDS, BUT TO EMPHASIZE TWO VERY CLEAR RECOMMENDATIONS THAT WE WOULD MAKE TO THE COMMITTEE REGARDING THE REA CONSERVATION AND WEATHERIZATION PROGRAMS:

1. THE PROGRAMS CANNOT BE AND SHOULD NOT BE VOLUNTARY FOR THE CO-OPS; AND
2. THE WEATHERIZATION LOAN PROGRAMS NEED TO BE PROCEDURALLY TIGHTENED UP AND MADE EASILY AND READILY ACCESSIBLE TO LOW AND MODERATE-INCOME RURAL PEOPLE.

I WOULD LIKE TO ELABORATE ON THESE POINTS.

IN PERSONAL CORRESPONDENCE TO THE DIRECTOR OF OUR ORGANIZATION IN APRIL OF 1976, THE MANAGER OF ONE OF THE NATION'S LARGEST GENERATING AND TRANSMISSION COOPERATIVES STATED:

"NEITHER THE COOPERATIVES NOR ANY OTHER ENTITY IN THE ENERGY INDUSTRY HAS THE ABILITY TO ENFORCE THE CONSERVATION OF ENERGY. THEY CAN URGE IT THROUGH ADVERTISING BUT, AS LONG AS IT IS LEFT TO VOLUNTARY EFFORTS, I DON'T THINK THE RESULTS OF ANY SUCH CONSERVATION ADVERTISING WILL AMOUNT TO MUCH."

THE MANAGER, I BELIEVE, WAS SPEAKING OF THE CONSERVATION EFFORTS OF PRIVATE CITIZENS AND INDUSTRY. YET HIS STATEMENT RINGS TRUE FOR THE CO-OPS THEMSELVES: IN SHORT, A VOLUNTARY CONSERVATION AND WEATHERIZATION PROGRAM HAS NOT AND WILL NOT WORK FOR THE CO-OPS. IN SPITE OF THE COMMENDABLE NEW DIRECTIONS OF THE REA ADMINISTRATOR, MADE CLEAR IN HIS RECENT REMARKS IN NEW ORLEANS, THE FACT IS THAT THE CONDITIONS UNDER WHICH BORROWERS WILL BE PERMITTED TO BEGIN A PROGRAM OF DEFERRED PAYMENTS TO ACHIEVE ENERGY CONSERVATION "WILL NOT BE MANDATORY". RATHER, "IT WILL BE AN OPTION BORROWERS CAN CHOOSE TO AUGMENT THEIR PRESENT ENERGY CONSERVATION PROGRAMS UNDER REA GUIDELINES FOR THE USE OF THESE FUNDS PATTERNED AFTER THE SUCCESSFUL PROGRAMS OF THE TENNESSEE VALLEY AUTHORITY."

IN THE VERY SAME SPEECH, THE ADMINISTRATOR ALSO SAID "I REALIZE THE QUANDARY THAT SUBSTANTIALLY REDUCED SALES CREATES FOR DISTRIBUTION AND POWER SYSTEMS ALIKE. I CAN UNDERSTAND THE RELUCTANCE OF MANAGERS AND DIRECTORS TO UNDERTAKE MAJOR CONSERVATION PROGRAMS WHEN THEIR SALES ARE DOWN SHARPLY." SURELY THE ADMINISTRATOR COULD NOT HAVE MISSED THE IRONY OF HIS REMARKS IN THE CONTEXT OF A HIGHLY-TOUTED NEW PUSH FOR VOLUNTARY ENERGY CONSERVATION AMONG THOSE VERY MANAGERS AND DIRECTORS WITH WHOM HE EMPATHIZED IN AN ERA OF OSTENSIBLY CLASHING PRIORITIES: ENERGY CONSERVATION VS. REDUCED SALES OF ELECTRICITY AND THE ALLEGED FINANCIAL PINCH OF SUCH REDUCTIONS.

IN SHORT, THE CONSERVATION AND WEATHERIZATION PROGRAMS OF THE REA SHOULD BE MADE MANDATORY FOR EVERY LOCAL CO-OP. REA THIS YEAR IS INSURING OR GUARANTEEING NEARLY \$6 BILLION IN LOANS TO RURAL ELECTRIC COOPERATIVES-- LOANS THAT ARE USED TO UPGRADE DISTRIBUTION SYSTEMS AND EXPAND POWER GENERATION PLANTS. WE BELIEVE THESE LOANS SHOULD NOT BE MADE UNLESS THE BORROWERS HAVE DONE EVERYTHING POSSIBLE TO CONSERVE ENERGY AND TO ADHERE TO MANDATORY ENERGY MEASURES AND GOALS FOR RURAL HOME WEATHERIZATION. THERE IS SUFFICIENT PRECEDENT FOR SUCH A REQUIREMENT WITHIN THE U.S. DEPARTMENT OF AGRICULTURE: ONE CANNOT GET A LOAN TO BUY OR BUILD A HOUSE WITH A FARMERS HOME LOAN UNLESS CERTAIN ENERGY CONSERVATION STANDARDS FOR THE HOUSE ARE MET, INCLUDING INSULATION AND ENERGY-EFFICIENT WINDOWS.

IF THE REA HAD TAKEN FORCEFUL STEPS TO REQUIRE SUCH CONSERVATION EFFORTS AMONG THE CO-OPS FROM THE BEGINNING, INCLUDING FULL PARTICIPATION IN THE USDA WEATHERIZATION PROGRAM, MORE RURAL HOMES WOULD BE WEATHERIZED TODAY. TO IGNORE SUCH A LESSON NOW-- AND THE INSIGHTS OF A CO-OP MANAGER MADE FOUR YEARS AGO-- WOULD BE TO COURT FURTHER DELAYS IN THE DEVELOPMENT OF A SIGNIFICANT AND COST-SAVING CONSERVATION AND WEATHERIZATION PROGRAM FOR RURAL CO-OP CUSTOMERS THROUGHOUT THE NATION.

THIS BRINGS ME TO MY SECOND POINT. IF THE CO-OPS ARE TO MAKE 5% LOANS AVAILABLE TO THEIR CUSTOMERS TO FINANCE WEATHERIZATION, WE STRONGLY RECOMMEND STREAMLINING OF THE APPLICATION PROCEDURES, AND AN AGGRESSIVE PROGRAM OF PROMOTION. THE EXISTING FARMERS HOME-REA LOAN PROCEDURE FOR WEATHERIZATION IS SIMPLY TOO CUMBERSOME,

QUOTED IN THE NEW JERSEY DAILY RECORD OF DECEMBER 30, 1979, ONE REA OFFICIAL WHO CHOSE NOT TO BE QUOTED (FOR OBVIOUS REASON) SAID OF THE PROGRAM "IT'S AN ADMINISTRATIVE NIGHTMARE. JUST TOO MANY HANDS. ANY STUDENT OF PUBLIC ADMINISTRATION COULD SEE THAT." THE NEWSPAPER REPORTED IN THAT SAME STORY THAT JUST TWO LOANS HAD BEEN DRAWN ON THE PROGRAM IN THE ENTIRE STATE, BOTH MADE THROUGH THE SUSSEX RURAL ELECTRIC COOPERATIVE. THE DIRECTOR OF THE CONSERVATION PROGRAM FOR THAT CO-OP NOTED "THAT TO QUALIFY FOR A FEDERAL LOAN A FAMILY HAS TO HAVE BEEN TURNED DOWN FOR A LOAN AT TWO OTHER PLACES. MANY FAMILIES, SHE SAID, GO TO A LOCAL BANK AND GET A HOME-IMPROVEMENT LOAN."

BEYOND THE PROCEDURAL REQUIREMENTS FOR THESE LOANS, WE FEEL THAT THE EXISTING INTEREST RATES-- 11%-- AS WELL AS THE PROPOSED INTEREST RATES-- 5%--ARE TOO HIGH FOR THE RURAL POOR WHO ARE MOST IN NEED OF ASSISTANCE TO WEATHERIZE THEIR HOMES. THE NO-INTEREST LOAN APPROACH OF THE TVA SHOULD INDEED PROVIDE A MODEL FOR THE ENTIRE CONSERVATION/WEATHERIZATION LOAN PROGRAM OF THE REA SYSTEM. AT THE VERY LEAST, NO-INTEREST LOANS SHOULD BE READILY AVAILABLE THROUGH THE CO-OPS FOR THOSE WHO FALL WITHIN 125% OF THE FEDERALLY-ESTABLISHED POVERTY GUIDELINES.

I WOULD CLOSE WITH SEVERAL OBSERVATIONS. THERE ARE INDEED A NUMBER OF RURAL ELECTRIC CO-OPS THAT HAVE MADE SIGNIFICANT AND SUBSTANTIAL EFFORTS AND INVESTMENTS IN ENERGY CONSERVATION AND WEATHERIZATION PROGRAMS. EVEN ONE OF THE LARGEST GENERATING AND TRANSMISSION CO-OPS-- BASIN ELECTRIC IN BISMARCK, NORTH DAKOTA-- HAS A SIGNIFICANT ENERGY

CONSERVATION PROGRAM THAT INCLUDES A STRONG ENERGY AUDIT TRAINING COURSE AND OTHER HOME ENRGY CONSERVATION SERVICES. AT THE SAME TIME, HOWEVER, IT CONTINUES TO EXPAND ITS GENERATING CAPACITY IN THE NORTHERN PLAINS IN ORDER TO MEET PROJECTED LOAD REQUIREMENTS THAT ARE BEING QUESTIONED AND CHALLENGED BY NUMEROUS CO-OP MEMBERS AND RANCHER-FARMER ORGANIZATIONS IN THE REGION. SUCH A "MIXED" COMMITMENT IS ALSO REFLECTED IN THE POLICIES OF THE REA AND NRECA: ON THE ONE HAND, THE VIRTUES OF ENERGY CONSERVATION AND THE POTENTIAL FOR SUPPLEMENTAL ENERGY FROM RENEWABLE RESOURCES ARE EXTOLLED, WHILE ON THE OTHER VASTLY EXPANDED, CENTRALIZED POWER PROJECTS, INCLUDING THE LIQUID METAL FAST BREADER REACTOR ARE SUPPORTED. UNTIL THE CO-OPS AND THE FEDERAL GOVERNMENT RECOGNIZE THAT THE COMMITMENT OF ENERGY CONSERVATION IS THE TOP PRIORITY IN THE FORMULATION AND ENACTMENT OF DOMESTIC ENRGY POLICY, WE WILL NOT MOVE ANY FASTER THAN THE SNAIL PACE OF THE LAST SEVEN YEARS TOWARD THAT ELUSIVE GOAL OF ENERGY INDEPENDENCE.

THE RURAL ELECTRIFICATION ADMINISTRATION NEEDS TO BE ENCOURAGED AND SUPPORTED IN ITS EFFORTS TO MOVE INTO A SIGNIFICANT AND SUBSTANTIAL ENERGY CONSERVATION AND HOME WEATHERIZATION PROGRAM. THE REA AND FARMERS HOME ADMINISTRATION SHOULD HAVE A SUBSTANTIAL STAFF ASSIGNED TOTALLY TO ENERGY CONSERVATION EFFORTS, AND EXTENSIVE TRAINING PROGRAMS FOR ALL FIELD PERSONNEL IN ENERGY CONSERVATION. AGAIN THE TVA PROVIDES A MODEL FOR SUCH EFFORT, AND THE REA MIGHT DO WELL TO WORK CLOSELY WITH TVA REPRESENTATIVES IN THE DAYS AHEAD TO DESIGN AND IMPLEMENT A COMPREHENSIVE ENERGY CONSERVATION PROGRAM TO SERVE THE PEOPLE OF



RURAL AMERICA-- PARTICULARLY THE POOR AND LOW-INCOME PEOPLE WHO ARE ITS CUSTOMERS AND ITS OWNERS, AND WHO HAVE BENEFITTED IN THE PAST FROM ITS PROGRESSIVE AND PEOPLE-ORIENTED POLICIES AND PROGRAMS. SUCH PROGRAMS MUST NOW CONTINUE IN AN ENERGY-SCARCE AGE WHERE THE DEMAND CANNOT BE FOR MORE, BUT FOR BETTER USE AND CONSERVATION OF WHAT WE HAVE ON LINE ALREADY.