

THE WIRE

A Quarterly Publication for CoBank Electric Customers
March 2019 • Volume 3 Issue 1



CoBank and Farmer Mac Enter Into Master Participation Agreement



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CoBank and Farmer Mac recently entered into a Master Participation Agreement through which they will be able to work together on the delivery of credit to rural electric co-ops and other CoBank-eligible borrowers. *THE WIRE* asked Rob West, CoBank's EVP of rural infrastructure, about this development.

THE WIRE: CoBank recently signed a Master Participation Agreement with Farmer Mac, why?

Rob West: This agreement will enhance our ability to deliver credit to customers in the rural electric and agribusiness industries serving rural America. It enables CoBank and Farmer Mac to participate in loans to both rural electric distribution and generation and transmission cooperatives as well as other eligible borrowers of the respective organizations. It is designed to provide CoBank with greater flexibility in

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In Step With the Farm Bill

CoBank's Brian Cavey discusses this major legislation and its ramifications for electric co-ops and their customers

The massive, five-year, \$867 billion federal Farm Bill, signed by President Donald Trump in late December, covers everything from crop insurance and food stamps to legalizing hemp as an industrial crop. It also sets a road map through 2023 for the nation's electric cooperatives and their ongoing mission to provide electrification and promote innovative technologies and economic development for rural areas.

"I think there are a number of things to feel very positive about," says Brian Cavey, senior vice president of government affairs for CoBank. "There are some important new provisions and, significantly, many programs were maintained from previous authorized levels."

It wasn't all good news, Cavey adds. Perhaps the most notable casualty: curtailment of the Rural Utilities Service Cushion of Credit, a longstanding program that has enabled co-ops that borrow from the government to deposit excess cash and realize a steady return. Balancing that disappointment was a significant expansion of the government's commitment to extending broadband internet service to underserved rural areas.

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FARM BILL, from page 1

Here are some highlights:

A boost for broadband

The bill includes \$350 million in USDA loans and grants to promote innovations in rural broadband technology. “Broadband isn’t something that’s nice to have, it’s an essential utility for agriculture producers and rural residents,” Cavey says. Precision agriculture, using artificial intelligence and other technologies to maximize yields and efficiency, requires access to powerful computing. “Broadband is also essential to providing adequate health care in rural areas, enabling schools to provide state-of-the-art education, and to help our rural communities attract and retain residents,” Cavey says.

“The biggest obstacle is generating cash flow,” he says. Low population density and the physical distance from one business or farm to the next escalate the costs of providing broadband.

According to the National Rural Electric Cooperative Association (NRECA), funding will concentrate on areas with fewer than

seven people per square mile, and where 90 percent of homes lack access to Internet service able to upload or download data at high speeds.¹ “This funding specifically targets innovations that help get better speed to rural areas at lower cost,” Cavey says. “The goal is to help close the cost gap between rural and urban broadband infrastructure.”

Underwriter program extended and improved

Under the Guaranteed Underwriter Program, qualified private lenders such as CoBank draw on Federal Financing Bank loans to make guaranteed loans to electric cooperatives. The Farm Bill not only extended the program, but also makes important improvements. “The maximum term for those guaranteed loans increases from 20 years to 30 years,” Cavey says, “and, for the first time, those funds can be used for electric generation projects.” Previously, the loans could be used only for electric distribution and transmission. “This opens up the program to another part of the industry,” Cavey says.

Scaling back the RUS Cushion of Credit Program

One of the biggest changes in the Farm Bill brought disappointing news for electric cooperatives by stripping key advantages of the Cushion of Credit program.

Co-ops with RUS loans could deposit funds in a federal government account paying five percent interest. That rate, far better than the low interest rates available elsewhere that have prevailed in recent years, helped provide the co-ops with a steady source of income and generated revenue that they could in turn use to help promote economic activity in rural areas, Cavey says.

The new Farm Bill prevents co-ops from making new deposits into Cushion of Credit (COC) accounts and incrementally reduces interest rates on deposits already in the system. “Those accounts will receive five percent for this fiscal year, reducing to four percent in fiscal 2021, after which the rate will be reduced to the 1-year Treasury Rate.” To ease the pain, the bill allows holders of COC

The bill emphasizes and underscores the nation's commitment to rural America, its central place in the nation's social and economic future, and the indispensable and ongoing role electric cooperatives play in ensuring that future.



The Rural Energy Savings Program

This initiative helps customers facing large energy bills control consumption. “They get financial assistance for energy conservation retrofits on their house, finance it through the co-op and then pay that back from what they save on their electric bill,” Cavey says. “It’s an important tool to reduce energy use and save money in a way that doesn’t require an upfront outlay of cash. And it creates some energy conservation jobs in the community. It’s a win for everybody.”

Ongoing partnerships

With some exceptions, the same might be said of the bill overall, Cavey notes. Considering the uncertain political climate that pervaded while the bill came together, “One of the most positive things is that the bill got done,” he says. “You have to take your hat off to the Chairs and the ranking members of the House and Senate Agriculture Committee. Their leadership got this bill moved and signed into law in a timely fashion at the end of the 115th Congress.”

Perhaps most importantly, Cavey says, the bill emphasizes and underscores the nation’s commitment to rural America, its central place in the nation’s social and economic future, and the indispensable and ongoing role electric cooperatives play in ensuring that future.

By extension, that’s a mission that partners such as CoBank who work closely with co-ops take to heart. “We’re dedicated to helping them meet the needs of their communities have, to help them thrive and grow,” Cavey says. As for the Farm Bill, “Now the focus is on making sure that the programs in the bill get implemented in a way that works best.” ■

accounts to prepay existing RUS loans without penalty through the end of September 2020. “But there’s no question that electric co-ops have lost an important tool,” Cavey adds.

Building on momentum

With the exception of the Cushion of Credit scale back, the Farm Bill notably extended a variety of programs that cooperatives use to serve their customers and promote development.

Rural Economic Development Loan and Grant Program

The Farm Bill extended this program enabling cooperatives to support job-building projects in their communities – underscoring co-ops’ key mission of economic development. “Some states use this program much more frequently than others,” Cavey says. For those that do, “It’s been a really valuable tool to drive creation of new jobs in rural communities. Some folks have just made really good use of it in helping their local economies thrive.”

This Issue’s Expert



As CoBank’s senior vice president of government affairs, **BRIAN CAVEY** represents the bank before Congress, the administration and regulatory agencies and is based in Washington, D.C.

Prior to joining CoBank, Mr. Cavey served as the vice president of legislative affairs for the National Rural Electric Cooperative Association (NRECA). Mr. Cavey is an accomplished legislative operative with over 25 years of experience on Capitol Hill, in the state capitols, in corporate government affairs and trade association management.

¹<https://www.electric.coop/farm-bill-advances-electric-co-op-interests-in-rural-development-broadband/>



CASE STUDY:

Shifting Toward a Brighter Energy Future

How North Carolina's electric cooperatives are embracing innovative technologies to benefit their members

“Beneficial electrification” may seem to hark back to electric cooperatives’ origins in the 1930s, when national, regional and local initiatives began to bring electricity to the 9 out of 10 rural homes and farms that had been literally in the dark. But today the phrase connotes something even more ambitious.

“It’s about building a brighter energy future,” says Diane Huis, senior vice president of innovation and business development for North Carolina’s Electric Cooperatives, the state’s trade association and generation and transmission cooperative. “From reducing costs and promoting economic development to providing cleaner air and water, the shift from processes using fossil fuels to electricity at home, on the farm and in industry can lead to improved energy efficiency of the overall energy sector and improved quality of life.”

A broad range of solutions

For such a vital shift, there’s no single breakthrough that will lead to those benefits. Rather, beneficial electrification depends on combining a broad range of technological solutions that utilize existing infrastructure more efficiently and enable consumers and industries to fully leverage the advantages electricity has to offer.

Edge-of-grid technology such as smart meters and thermostats have made the electric grid more interconnected and flexible and provided better monitoring and control that allow electricity to be used in new ways. From electric vehicles on the road and more efficient irrigation and space heating on the farm, many of those innovations hold tremendous promise for North Carolina’s future, and the state’s co-ops are continuing to explore opportunities to make devices and processes cleaner, smarter and cheaper.

“Agribusiness is a large driver of North Carolina’s economy, and it’s especially prevalent in the rural parts of the state our cooperatives serve,” says Huis, who notes that agriculture has long depended on gasoline, diesel fuel and propane to power tractors and combines, heat barns and run irrigation systems.

Yet in irrigation, for example, diesel-powered motors waste energy, operating at only about half the efficiency of the new electric systems. New electric pumps with variable frequency drives allow energy use to be calibrated precisely to meet highly variable needs in delivering water to crops. Because such systems use only the power that’s needed, energy use – and costs – tend to be lower, further shifting the cost-benefit equation toward electric-powered options.

Rethinking the tractor

Electric tractors, too, could bring benefits to farmers in North Carolina and across the country. In December 2016, John Deere introduced the first battery-powered tractor, which runs on two independent electric motors, makes less noise than traditional tractors

and has far fewer moving parts, which should mean lower maintenance costs. As improved battery capacity increases the current four hours in the fields between charges, these tractors may experience the same kind of growth that electric-powered cars have seen in recent years.

Other innovations are fueling a switch to electricity from propane or natural gas for heating barns for livestock. “Any technology that can reduce costs and decrease the farm’s environmental footprint is technology that our members and consumers are very interested in,” says Huis.

A long list of other technologies and devices – encompassing smart thermostats, batteries, microgrids and energy management systems – also utilize the evolving electric grid to provide benefits to co-op members

and communities. The generation and transmission arm of North Carolina’s electric cooperatives has developed an agricultural microgrid in partnership with local cooperative South River EMC and Butler Farms located in rural North Carolina that utilizes alternative energy sources including biogas from swine waste, solar and battery storage to generate electricity that can power the farm and nearby homes.

“We look at how technology directly impacts our consumers and their communities,” Huis says. “Does it give them more control over their electricity costs and help improve their lives?”

“That’s the great thing about electrification and today’s flexible grid,” she adds. “Consumers, utilities and the environment all benefit from the brighter future that the evolution of electricity has to offer.” ■

Beneficial electrification depends on combining a broad range of technological solutions that utilize existing infrastructure more efficiently and enable consumers and industries to fully leverage the advantages electricity has to offer.





Partnership is *ELECTRIC*

At CoBank, just like at NRECA, we see every day how important reliable, affordable power is to the quality of life and vitality of rural communities.

For more than 50 years, NRECA International has provided women, men and children in developing countries access to safe, reliable and affordable electricity. The organization

has pioneered low-cost rural electrification in countries by designing distribution grids, constructing lines, and applying a set of standards that meet very specific community needs. NRECA International has a wealth of experience in the planning and operation of various power generation technologies including renewable resources.



That's why we at CoBank are so proud to partner with NRECA, the Foundation and the rural electric cooperative industry to bring much needed power to communities around the world.



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structuring transactions in order to meet the specific needs of borrowers.

THE WIRE: Is this a new relationship for CoBank?

RW: While our relationship with Farmer Mac isn't new, the agreement is. We're very pleased to enter into this agreement that further develops our business relationship with them. And we look forward to delivering the benefits of this new agreement to our customers. CoBank already works closely with a wide variety of banking partners inside and outside the Farm Credit System on loans to rural electric customers. These relationships greatly enhance our lending capacity and ability to meet the need for dependable credit to them.

THE WIRE: Has CoBank executed on the agreement with Farmer Mac?

RW: Yes. CoBank is participating with Farmer Mac on \$546 million in loans involving approximately 40 electric distribution customers, who are aware of the transaction. CoBank will remain in the position of loan servicer for all of these borrowers.

THE WIRE: Will CoBank participate with Farmer Mac on this agreement in the future?

RW: Possibly. CoBank remains a balance sheet lender with a strong focus on long-term customer relationships. However, our loan agreements do enable us to sell loans or portions of loans, which is a standard commercial banking practice.

Most importantly, we remain deeply committed to serving the rural electric industry, which is a central aspect of our broader mission in rural America. Our electric customers are dedicated to a long-term mission of providing affordable, reliable power to customers across rural America; we are dedicated to a long-term mission of delivering capital to keep rural America thriving for future generations. We look forward to being able to serve our customers with an expanded portfolio of service offerings as a result of this new agreement with Farmer Mac. ■

MARK YOUR CALENDARS:

CoBank's 2019 Webinar Series

■ Beyond dependable credit and financial services, CoBank seeks to help our customer-owners by providing thought leadership, high-quality information and timely insights on a number of energy-related topics that may impact you and your organization.

All webinars will be held at 11:00 AM Eastern time.

For more information or to register, please contact your CoBank Relationship Manager.

April 2, 2019.....**Strategic Planning**

- *Karl Hiesterman, Vice President of Process and Change, CoBank*

May 7, 2019.....**Broadband Case Studies**

- *Sequachee Valley Electric Cooperative*
- *Tombigbee Electric Cooperative*
- *Great Lakes Energy Cooperative*

July 23, 2019.....**Legal Update**

- *Ty Thompson, Vice President and Deputy General Counsel, NRECA*

September 19, 2019.....**Interest Rate Update**

- *Robert Eisenbeis, Chief Monetary Economist, Cumberland Advisors*

November 5, 2019.....**Battery Storage**

- *Mike Kruger, President and CEO, Colorado Solar Energy Industries Association*
- *Nicole Geneau, Director of Strategy and Market Development, Mortenson*

CoBank's 2019 Industry Conferences

■ Packed with insightful speakers and compelling content, CoBank's industry meetings are designed to give America's rural energy cooperatives the insight and knowledge they need to meet today's challenges.

Registration will open in late spring. For more information, visit www.cobank.com/events.

July 15-16, 2019.....**New Director Orientation**

- *Omni Grove Park Inn, Asheville, North Carolina*

July 16-17, 2019.....**Energy Directors Conference**

- *Omni Grove Park Inn, Asheville, North Carolina*

July 31, 2019.....**Battery Storage Applications Workshop**

- *Charleston Place Hotel, Charleston, South Carolina*

July 31 - August 2, 2019...**Energy and Water Executive Forum**

- *Charleston Place Hotel, Charleston, South Carolina*



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