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# MODIFICATION OF REA LOAN CRITERIA

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## BEFORE THE SUBCOMMITTEE ON AGRICULTURAL CREDIT AND RURAL ELECTRIFICATION

### OF THE COMMITTEE ON AGRICULTURE AND FORESTRY UNITED STATES SENATE

NINETY-FOURTH CONGRESS

SECOND SESSION

ON

### H.R. 12207

AN ACT TO AMEND THE RURAL ELECTRIFICATION ACT OF 1936, AS AMENDED, TO CORRECT UNINTENDED INEQUITIES IN THE INTEREST RATE CRITERIA FOR BORROWERS FROM THE RURAL ELECTRIFICATION ADMINISTRATION, AND TO MAKE OTHER TECHNICAL AMENDMENTS

SEPTEMBER 17, 1976

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## MODIFICATION OF REA LOAN CRITERIA

FRIDAY, SEPTEMBER 17, 1976

U.S. SENATE,  
SUBCOMMITTEE ON AGRICULTURAL CREDIT  
AND RURAL ELECTRIFICATION, OF THE  
COMMITTEE ON AGRICULTURE AND FORESTRY,  
Washington, D.C.

The subcommittee convened, pursuant to notice, at 2 p.m., in room 324, Russell Senate Office Building, Hon. George McGovern (chairman of the subcommittee) presiding.

Present: Senators McGovern and Stone.

### STATEMENT OF HON. GEORGE MCGOVERN, A U.S. SENATOR FROM SOUTH DAKOTA

Senator MCGOVERN. The subcommittee will come to order.

Today, we are going to consider H.R. 12207, a bill passed by the House of Representatives on May 3, 1976, to change interest rate criteria for borrowers from the rural electrification program.

[H.R. 12207 is as follows:]

[H.R. 12207, 94th Cong., 2d Sess.]

AN ACT To amend the Rural Electrification Act of 1936, as amended, to correct unintended inequities in the interest rate criteria for borrowers from the Rural Electrification Administration, and to make other technical amendments

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Rural Electrification Administration Technical Amendments Act of 1976".*

SEC. 2. Section 301(a)(4) of the Rural Electrification Act of 1936, as amended, is amended to strike the semicolon at the end thereof, and add the following: "and the unobligated balances of any funds made available for loans under the item 'Rural Electrification Administration' in the Department of Agriculture and Agriculture-Environmental and Consumer Protection Appropriations Act;".

SEC. 3. Section 305(b) of the Rural Electrification Act of 1936, as amended, is amended—

(1) by striking the words "meets either of the following conditions";

(2) by striking out all of paragraph (1) thereof and inserting in lieu thereof the following:

"(1) in the case of a telephone borrower, had at the end of the most recent calendar year ending at least six months before approval of the loan, an average subscriber density of three or fewer per mile; or";

(3) by striking out all of paragraph (2) thereof through and including the words "telephone borrowers" and inserting in lieu thereof the following:

"(2) in the case of an electric borrower, had at the end of the most recent calendar year ending at least six months before approval of the loan, an average consumer density of two or fewer per mile or an average adjusted plant revenue ratio of over 9.0, such ratio being a simple average of the ratios obtained by dividing the sum of its distribution plant and general plant by its annual gross revenue less cost of power for that calendar year

and the two immediately preceding calendar years. As used in this subsection the sum of distribution plant and general plant shall be the total of the amounts shown in accounts numbered 360 through and including 399 of the uniform system of accounts approved, as of the effective date of this amendment, by the Administrator, for use by Rural Electrification Administration borrowers; gross revenue shall be the amount shown in account numbered 400 of said system of accounts; and the cost of power shall be the total of amounts shown in accounts numbered 500 through and including 573 of said system of accounts as the same is constituted";

(4) by inserting the words "to a telephone or electric borrower" following the words "make a loan" in the proviso to paragraph (2) thereof.

Passed the House of Representatives May 3, 1976.

Attest:

EDMUND L. HENSHAW, Jr.,  
Clerk.

Senator MCGOVERN. Under the present criteria, eligibility for 2-percent loans under the insured loan program is established by qualifying either under a density criterion of two or fewer users per mile or a revenue criterion if the applicant has an average gross revenue per mile which is at least \$450 below the average gross revenue per mile of REA-financed systems for electric borrowers, or \$300 below the national average in the case of telephone borrowers.

If enacted, H.R. 12207 would not disturb the density formula except for telephone borrowers when the criterion would be three per mile but would substitute for the revenue formula a plant to revenue ratio test for electric borrowers.

The text under this criterion involves a mathematical equation of investment in plant, including the headquarters, lines, and inventory over operating revenue less the cost of power:

INVESTMENT—PLANT, HEADQUARTERS, LINES, ET CETERA—REVENUE MINUS  
THE COST OF POWER

A cooperative would retain eligibility if the ratio resulted in a figure higher than 9. Presently, at least before this committee there is no testimony nor is there evidence in the House report how the administration arrived at the figure 9 as the point of determining eligibility or ineligibility.

The administration does, however, estimate that approximately 196 electric borrowers would remain eligible for the special rate under the revised formula representing a decrease of 104 cooperatives from the 300 currently eligible. For telephone borrowers, increasing the density factor to 3, about 177 present borrowers would remain eligible—a decrease of 173 from the 350 currently eligible.

The record should show that there has been one hearing on the House side on this legislation. This hearing, however, is the first real opportunity that opponents to H.R. 12207 have had to put their views on record.

In addition to the immediate effect of this legislation, I would hope that those who are testifying on this issue today will project the impact of this legislation into areas of future need.

Let me just say that one of the special concerns I have had is the State that is considering rather massive irrigation projects. The impact of the project is such that in some situations up to 70 percent of an existing system may have to be upgraded to meet expanded power demands.

I would not think that either the Congress or the administration would want to be placed in a position of denying 2-percent money to rural electric cooperatives when they are faced with what is, essentially, "start up" costs identified with system rebuilding to meet larger load requirements.

There is also a question here relative to the bill itself, whether it goes too far or not far enough, in addressing the longer term concerns of rural electric financing.

There is a concensus, I believe, that we need to closely examine the developing financial patterns for rural electric and rural telephone cooperatives. We will be interested in determining if H.R. 12207 is the proper vehicle for this in-depth review or whether we would be better advised to project a longer and more detailed study of the total problem to be addressed in subsequent legislation in the 95th Congress.

This subcommittee is aware, of course, of the need to evaluate the financial picture for electric and telephone cooperatives. Whether H.R. 12207 is the way to accomplish this is the reason for the hearing this afternoon.

I hope that Administrator Hamil, who has been before this committee on numerous occasions, is prepared to address himself to these questions I have raised. I do want to express concern, however, about the status of these borrowers at some future point, particularly with reference to the irrigation matter to which I referred, when a legitimate need might exist for the 2-percent money and the borrower would suddenly find himself in changed circumstances under this legislation.

So I would hope that Mr. Hamil would address his remarks and his observations to this issue at some point in his testimony, based either on experience tables at the agency or from other data so that he can assure me that if and when such financial needs arise, they will be met under conditions that will not create roadblocks in terms of the project moving forward.

To put the question more simply, I would hope that we would be assured that at some future day this project will not have to go through a financial reappraisal because of a change in borrowing conditions it is now relying on for maximum feasible development.

Senator Stone, do you have any comments you would like to make before we call the Administrator?

Senator STONE. Thank you, Mr. Chairman. I have a very, very brief one.

I am simply concerned that we get an equitable division in the total funds available for these projects between the kind of functions that are charged 5 percent and the kind of functions that are charged 2 percent so that neither one dwarfs the other, and I hope that the final product of this bill can accomplish that.

I thank you, Mr. Chairman.

Senator McGOVERN. Thank you, Senator Stone.

Senator Dole and Senator Humphrey, both members of this committee, have asked that their statements be included in the record.\*

Senator Humphrey sent me a letter under date of September 16 and Senator Dole has a rather comprehensive statement which I would

\*See p. 26 for the statements of Senators Humphrey and Dole.

like to ask be made a part of the record. Both of these Senators have discussed their interest in the legislation with me.

In addition to that, I have been asked to insert in the record a letter signed jointly by the two Members of Congress from South Dakota, Congressman Abdnor of the Second Congressional District, and Congressman Pressler of the First Congressional District, in which they express some concern about the impact of this legislation.\*\*

Mr. Hamil, I think we are ready to hear your testimony, if you will come forward.

**STATEMENT OF HON. DAVID A. HAMIL, ADMINISTRATOR, RURAL ELECTRIFICATION ADMINISTRATION, U.S. DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY DAVID H. ASKEGAARD, DEPUTY ADMINISTRATOR; JACK VAN MARK, LEGISLATIVE AND INTERAGENCY ADVISER; NORMAN PLOTKA, ASSISTANT GENERAL COUNSEL, COMMUNITY DEVELOPMENT AND NATURAL RESOURCES, OFFICE OF GENERAL COUNSEL, U.S. DEPARTMENT OF AGRICULTURE**

Mr. HAMIL. Mr. Chairman, members of the committee, we are pleased to be here this afternoon and to discuss with you and your associates the impacts, pro and con, of the proposal that is in H.R. 12207.

I do not have a prepared statement for you because it seems to me that it would be of more advantage to the members of this committee to question those of us representing the administration of the REA program than it would be for me to give you a prepared statement at this time.

I do have some calculations here that I think would be of interest to you, Mr. Chairman, and to the members of the committee, showing you how the present act has changed; that is, the number of entities involved in the special rate of interest has changed since the act was amended on May 11, 1973. And I believe it was the intent of the Congress at that time, as it was expressed in the preamble to the act, that we should work toward developing strength within the REA borrowers and that they should be encouraged to use resources that might be developed from their own credit agency and others in order to take care of the tremendous needs that are continuing to develop in both the electric and the telephone programs.

I believe that we were all working at what we thought would be the best interest of the REA programs when the amendments were put together and they were adopted.

The provision that was put in pertaining to income per mile of line has not worked in the manner in which it was anticipated. I seriously doubt, Senator McGovern, if any of us who were involved in trying to strengthen our act in 1973 realized that we might have an oil embargo within 6 or 8 months which would make quite a difference in power costs.

Who would have believed that, down in the State of Texas, where I happen to have been this morning, where natural gas had been

\*\*See p. 27 for the joint letter from Congressmen Abdnor and Pressler.

available for so long for both direct use and for boiler fuel, at this time the rural electric associations in Texas are a sizable project of two 400-megawatt lignite-burning plants to provide them with their power needs.

Anybody who is familiar with the costs of power knows that a natural gas plant is an ideal plant if you have the fuel to use in it. A lignite plant is much more expensive and much more difficult to bring up to the environmental standards. Consequently in some areas of the country where fuels were very cheap and electric energy was cheap at the wholesale level to either buy or to generate, we have had a complete switch.

In Texas—I just use Texas because I was just there—you are going to go from a cheap energy area to quite an expensive energy area. In other parts of the country where oil was a basis for the generating plants, the cost of fuel oil has gone up tremendously, and that has resulted in a direct increase in the cost of energy to all of the people, including rural electric associations. In many of these cases, Senator McGovern, there was a direct increase in the income per mile of line which was detrimental rather than advantageous. Our act up to this time has in these cases worked against the people who have had tough sledding. It has been the interpretation of the General Counsel of the Department of Agriculture that both the two per mile and the income per mile were automatic criteria and if the Administrator made a loan to a borrower meeting either criteria, he must make it at the special rate.

I can cite to you over the years, particularly in recent times, cases where some of our more fortunate rural electric associations with hydroelectric power or coal-burning plants that were on the line, did not have their costs dramatically increased as some of the others. Consequently some of the REA borrowers who were extremely well off by the REA borrowers' standards—those who have had their loans reasonably well paid down—and I can cite one or two with a net worth of 85 percent—in an area where the cost of power was low, who would at the outset of the 1973 act not only borrow 70 percent of their money from the Rural Electrification Administration, but 30 percent from an outside source, according to the rules that had been in effect for some time—are now eligible for the special rate of interest. I don't believe that that is the way the Congress intended that this bill should work.

I would remind the members of this committee that there is a provision in the present act, and there would be a provision in the amended act, if this amendment that has been proposed and passed by the House is adopted, that the Administrator has the authority to make available the special rate of interest to any eligible borrower with extenuating circumstances.

And as the Administrator all of the time since this act was amended in 1973, I have used that authority on several occasions. I can assure the members of this committee that I believe that so long as I am the Administrator I would continue to do so.

I have known all of the other Administrators, with the exception of Morris Cook, and I cannot think of a single one of those men that I believe in his time would not have used the same judgment that I

have indicated that I would use where an extenuating circumstance prevails.

The Senator has brought up a matter that has to do with irrigation and, Senator McGovern, this is in an area in which I didn't have to ask much advice from my staff. I have grown up in an irrigated district in my State of Colorado. I am quite familiar with irrigation; I am familiar with flood irrigation; I am familiar with pump irrigation; I am familiar with circular spring irrigation, or that that you move by hand. I can give you a pretty fair discourse concerning it.

We have a review of a number of cases involving borrowers from REA that I want to present to the members of the committee, Mr. Van Mark, will you present the chairman a copy and Senator Stone a copy?

If you will notice there were several from Nebraska because Nebraska is adjacent to the State of South Dakota and many of the circumstances, I believe, will be somewhat similar.

I think you will agree that our evidence would indicate, when you have had a chance to review this, that should there be a heavy investment, you will find that it would probably bring the PRR up to where it would make them eligible if other circumstances were somewhat in the same vein. On the list is the percentage of increase in megawatts sold, between 1972 and 1975 for irrigation by each one of these entities.

As I said, we have most of them from Nebraska because it is close and because Senator Curtis is also from an irrigated district, but just to show that it wasn't all Nebraska, we took some from the high plains of Texas.

There is one here from Muleshoe, Tex., and we went out to Alturas, Calif., which is just north and west of Reno, Nev. We took Deming, N. Mex.; Malta, Idaho; Hugo, Colo.; and Dodge City, Kans.; and I think a review will indicate that irrigation has not made dramatic changes.

You will find that the one at Muleshoe, Tex. added 500 pumps plus to its system. The PRR remained the same. Density was 2.24 to begin with, and it was 2.31 when it ended, and probably just as much of that increase was from additional residential as it was from the pumps.

In most cases, Senator McGovern, if the 160-acre provision prevails and people do use the pivot system for irrigating, the pivot, unless somebody puts a corner attachment on it, will cover 130 acres out of a quarter section. If the power provider runs his line through, let's say the center, and he has four leads out to four different units in a square mile area, he has approximately 2 miles of line.

Now some of the borrowers, Senator McGovern, have resolved that the lead from outside the circle to the center, which in this case has to be put underground, be at the owner's expense.

There are others who have deemed that it is in their best interest to have that lead come into the center and the terminal. Today you have enclosed transformers that can be put right in there at the center. We have some of them on one of our places where the mileage of line that would be measured would be measured right up to the pump. In this case, if you put four pumps in a section, you would have approximately 2 miles of line and four meters.

It is generally a Board determination, Senator McGovern, as to how that would be handled.

Senator McGOVERN. Mr. Hamil, if I could interrupt you there just a minute: These systems you cite here in the chart that you furnished the committee—those are not systems that are under the 160-acre limit though, are they?

They are not Bureau projects; that is, the ones you list here in Nebraska would not be entirely analogous to the South Dakota project where we are going to be limited by the 160-acre rule?

As I understand it, these are not Bureau projects but are individual irrigators who can operate any sized unit they wish, and presumably the 160-acre problem that we in South Dakota are concerned about does not apply.

Mr. HAMIL. I thought I made it plain that I was using the four quarters out any section. It is going to take approximately 2 miles of line to put the four pumps in, and that is two to the mile.

Senator McGOVERN. So that if there were four meters on the 640 acres on that section, your contention is that it still doesn't change the eligibility of that particular area for 2-percent money?

Mr. HAMIL. Well, the St. Paul, Nebr., project which happens to be the fourth one down there, went from a density of 1.77 in 1972 to 1.88 in 1975. It did not go over 2 which is needed to change the eligibility.

Now if it changed eligibility, the Administrator under the act has the authority, as I have indicated, if there is a demonstration of extenuating circumstances, to continue its eligibility.

Senator McGOVERN. Right, but you are saying, in effect—to go back to my own situation—that if we move ahead on the Oahe irrigation project and, of course, I very much hope we will, and we have to undergo major upgrading of the system to take care of a considerable number of new users, that you have the power, and past experience indicates that you would use it, to see that they are not confronted with a financial crisis?

Mr. HAMIL. If they were confronted with a financial crisis, Senator, this would surely be the case.

Let me just point out that I come from irrigated country and I have helped to put a good many hundreds of acres that was nothing but pastureland under sprinkler irrigation. Now, many people consider putting irrigation on land that has been farmed and merely having what you would call a good average or a better-than-average rainfall crop.

It just doesn't work that way because when you start putting irrigation on, and I am sure, Senator McGovern, it will work in the Oahe irrigation project like it has in others, the operator, whoever he may be, whether Coloradan or South Dakotan or Texan, wheat or corn, is immediately going to figure out how he can get the best results. He is going to figure how much water he will have available and when he can have that available, and he is going to grow a crop that is good for his irrigation system. He is going to figure out how much corn and how much wheat he can plant. And he is going to go to a cooperative fertilizer man and he is going to require enough fertilizer to raise the maximum crop. Your area in South Dakota is very similar to mine. In my area, most of the wheat that is grown, Senator McGovern, is grown on summer fallow, a crop every 2 years.

This year we were fortunate and didn't get caught in the drought as badly as some of areas north. The average in my county is approxi-

mately 30 bushels. All right, 30 bushels of wheat nonirrigated, that is 30 bushels every 2 years. Multiply that out by what wheat is worth. Let's use round figures and say it is worth \$3 a bushel. That is \$90.

That same land in this same latitude with a corn crop this year would probably yield 120 to 130 bushels, and that is on the light side. A good farmer out there can make it yield 150 to 175. Ordinary farmers are getting less.

So you multiply that by what corn is worth, and an acre of irrigated land versus an acre of dry land is as different as day is from night. And I am just like you, I hope that the Oahe project does materialize because in my judgment it would be of tremendous value to the people of South Dakota and to the food production of the United States and the world. In my judgment it would be a terrific advantage to the rural electric associations who are providing power in a great deal of that rural area.

Senator McGOVERN. I wish we had it in operation now since we are undergoing a devastating drought in our State. That points up, I think, the great urgency of proceeding on the Oahe project.

Well, I didn't want to interrupt your presentation until you were finished, Mr. Hamil.

Mr. HAMIL. I want you to know I did not select these cases; these were selected by the folks at my office. If I may say so, they are not probably as well versed in irrigation as I happen to be myself because I have lived a lifetime with it. There are very few of these borrowers that I haven't been in their communities and I do know this demonstrates about how irrigation growth would affect them.

Now why did we come up with PRR? Senator McGovern, PRR is one of the means recommended by the national association and the Cooperative Finance Corp., and agreed with by REA, of determining the well-being of a rural electric association. It was one of the criteria that we used in making determinations as to the borrowers who should be required to obtain part of their new capital needs from outside of REA.

It is something that is well known and understood by the REA borrowers, and the two per mile is also something that is well understood because of the fact that it is a measure that you can look at.

None of these, Senator McGovern, are absolute—there is always a little bit of variance. I don't believe that you could write a formula for 986 rural electric borrowers scattered from Alaska to the Florida coast and from Calais, Maine, to Anza, Calif., where you could get something that would be absolutely accurate.

But under the present act, Senator McGovern, we have the authority granted to the Administrator to make the special rate of interest available when in his judgment there are extenuating circumstances where he should act. As I have indicated to you, I have acted, and so long as I am there will continue to act.

I do believe that the present act is making the special rate of interest available to people without need, and in my judgment it is in the best interest of the entire rural electrification program to correct it as rapidly as we can.

And I would be just as interested, Senator McGovern, to see that in correcting it we do not create a monstrosity nor do we create a set of circumstances that is going to be detrimental to REA borrowers.

Senator McGovern. Mr. Hamil, I think it would be good for the record if you could just explain to us briefly how you arrived at the plant-revenue ratio or the figure of 9; that is: What is the basis for that particular cutoff point? Can you give us some elaboration?

Mr. HAMIL. Well, I have my Deputy Administrator here, Mr. David Askegaard. I am going to ask him to speak of that because Dave Askegaard went with the National Rural Electric Cooperative Association as a representative of REA from one end of this country to the other on its long-range study to determine how additional financing should be brought into the REA program. PRR, plant revenue ratio, was one of the criteria that evolved as a means of determining how and who should be getting all of his money at one figure, and how the other one should get it at another.

Dave, will you explain this to Senator McGovern?

Mr. ASKEGAARD. Yes, sir.

First: I will say a word about the ratio, Senator. This ratio is the ratio of the plant divided by the revenue, less the cost of power.

Now this has particular importance in the case, the type of situation which has been discussed, because if there should be large investments needed to serve irrigation, that would tend to raise the plant value, of course, and then the irrigation tends to use a good deal of power so that this would tend to make a substantial reduction in the denominator of this ratio.

Therefore if there is a large investment needed and a lot of power used as a result, this has some tendency to raise the plant-revenue ratio. Consequently there will be borrowers that will become eligible for 2 percent financing because of the fact that they may have to make large investments to serve additional customers, so this ratio would tend to help borrowers that have to make large investments.

Now, it was introduced in the first instance by the Cooperative Finance Corp. because it felt that it did assist those borrowers that were required to make large investments.

Now when the question of changing the rural electrification criteria came up, the NRECA had a committee of its members which studied extensively the type of amendment which would be most reasonable, and its implications upon the borrowers. The committee felt that this plant-revenue ratio would be very suitable and discussed this at all of the regional meetings. It was the NRECA that initially proposed that this ratio, coupled with the density, would be suitable for the borrowers, so we did not really select the figure.

Now, we examined it afterwards and we observed and determined that the overall result would be to make the number of borrowers eligible almost identical to the number of borrowers that were eligible when the act was first amended. The logic of the ratio, as I have explained, is that it helps those borrowers that have to make large investments.

So there is a basic logic in the selection of the ratio and it, together with density, served to return the number of borrowers eligible for 2 percent to almost identically the number of borrowers that were eligible when the act was first amended. That was really the basis for determining the use of the ratio at that particular level.

Senator McGovern. But it is your conviction that this formula, in effect, gives, actually works in favor of the prospect that I posed here

a while ago of substantial new outlays to take care of an irrigation development?

Mr. ASKEGAARD. Yes, sir, that is certainly right.

Senator MCGOVERN. Mr. Hamil, in your remarks you referred to your determination to take care of extenuating circumstances as they developed, and pointed out that has been your record in the past as well as the record of your predecessors. Does the law itself speak to that problem, extenuating circumstances?

What I am getting at, is do we have some assurance that future Administrators are going to be bound by the same essential criteria that you have set for yourself in meeting extenuating circumstances.

Mr. HAMIL. I indicated that this became a part of the law since I have been the Administrator. It is in section 305(b)(2)(A). None of this is changed by the amendment. Here is what it says:

Provided, however, that the Administrator may, in his sole discretion, make a loan at the special rate if he finds that the borrower; (A) has experienced extenuating circumstances or extreme hardship or \* \* \*

And then it goes on to merely say the same thing in other words, Senator MCGOVERN.

Senator MCGOVERN. But that is actually the law that you are reading?

Mr. HAMIL. Yes.

Senator MCGOVERN. This provision is not affected by the legislation before us?

Mr. HAMIL. No, sir; it is right in there. And Senator, this is one aspect that has been retained in any proposal that has been made to correct the income per mile of line criteria, which is, in my honest judgment, Senator, working in reverse to what I think that the Members of the House and Senate intended it when Public Law 93-32 was enacted on May 11, 1973. This is a part of the present law and it is being retained in the amendment.

Senator MCGOVERN. There are a couple other matters I wanted to just have you comment on here today, Mr. Hamil. I wonder if you could explain to the committee how you would handle applications that are now on file from cooperatives whose status might be changed under the terms of this new legislation?

Mr. HAMIL. Well, this is a matter, Senator MCGOVERN, that has required a great deal of our attention and, of course, we were very hopeful in administering this program that when the bill was adopted in the House that it might come up for immediate consideration in the Senate.

However, that was not the case and, as you know, Senator MCGOVERN, loan applications continue to come. I don't know that we got any today, but if we didn't it will be an unusual day. There are some coming almost every day. It would be my suggestion that this committee state in the report language that the Administrator should use the authority granted to him by the portion of the act that I just read to you, for applications that were in the Office of REA at the time that this proposal became law, that he determine that this did create an extenuating circumstance for those applications.

And I am in the position to say that should this become law I will use that authority to take care of the applications that would be in the hands of REA whenever this became law.

Senator McGOVERN. So that we would have reliable assurance that any of these pending applications that might be affected by the new criteria would be treated as though they are being handled under the old criteria?

Mr. HAMIL. Yes.

Senator McGOVERN. That is, the ones that are now pending at the time that the President signs the bill into law?

Mr. HAMIL. Yes; and Senator McGOVERN, I would prefer that the language would say, "loan applications that were in the Office of REA."

Senator McGOVERN. Let me give you a specific case now. We have a rather important cooperative in Colman, S. Dak., the Sioux Valley Electric Cooperative. I understand that they have a pending application of slightly over a million dollars right now.

What would become of that application, assuming Congress passes this bill with the understanding you have just given? How does that affect that particular application?

Mr. HAMIL. Well, Senator McGOVERN, if that application is in REA, it would be, as I said, it would be considered under the terms that were prevailing prior to the enactment of the act.

Now, if it is yet to come—

Mr. ASKEGAARD. It is on hand.

Mr. HAMIL. It is on hand.

Senator McGOVERN. So they would be processed under the same criteria that is now in the law, without reference to this bill that is before us?

Mr. HAMIL. Yes; and it would seem to me that if the committee instructed or put that in the report, it would give me grounds upon which I could make that determination.

Senator McGOVERN. When we met in full committee here, Mr. Hamil, as I recall, about 2 weeks ago, we had some of the people from your office here, or at least from the Department, and I raised the question at that time about adopting the provision you have outlined in the bill now before us.

The language would read pretty much the way you have just suggested that we put into the report, except it would have the force of law rather than simply the instruction of a committee report, and it would read as follows:

The amendment made by Section 3 of this Act shall not be applicable to Rural Electrification and Rural Telephone loan applications filed prior to the date of enactment of this Act.

I think that is precisely what you suggest we do in the report.

Would the Department have any objection to us simply writing this into the bill?

We raised that with the people who were here from the Department and they said they didn't think it would be any problem.

Mr. HAMIL. If I would have my preference in handling it, I would prefer that it be in the language of the report.

I have the Assistant General Counsel of the Department of Agriculture here, Mr. Norman Plotka. He knows what authority would be in my hands to handle it under the other amendment.

Norm, would you have any reply?

Mr. PLOTKA. I think that the amendment of the act raises a problem of time, and I think that is the only reason for Mr. Hamil's preference of having it in the report rather than in the act. We would have to go back to the House and there may be a question of getting it through both Houses.

Senator McGOVERN. It is really not so much an issue of substance as one of procedure.

Mr. PLOTKA. Mechanics is the only issue.

Senator McGOVERN. Just one more question here.

In your criterion of density, Mr. Hamil, does the two customers per mile, are you referring to apply to meters or do you mean actual customers?

I think you did allude to that in your earlier statement.

Mr. HAMIL. We mean meters. We have a bulletin that defines what a consumer is. I can't quote it right off the top of my head, but actually it means meters.

Am I not right on that?

Mr. ASKEGAARD. I think that is basically right.

Senator McGOVERN. You gave us a case here though, I think, where possibly one person may have several meters on a farm. How do you calculate that in determining the density factor?

Mr. HAMIL. Well, calculating the density, each one of those is a consumer. In other words, if on my place we have five wells, we are metering five wells and we have five consumers.

Senator McGOVERN. And you are billed for each meter?

Mr. HAMIL. Yes.

Senator McGOVERN. So that would factor in as though each meter is counted as a customer.

Mr. HAMIL. Each meter would be counted as a customer in that case.

Out on one of my ranches we have, let's say, three houses there, but we have a single meter. That is considered one consumer in that case because the three houses are coming off of one yard pole and one meter.

I think we are making a great deal of to-do here about whether or not somebody is going to go over the magic line of two to the mile or whether they don't.

What we are talking about is an irrigation district. Really the thing that is going to be important to the people of South Dakota is whether there is an adequate and dependable supply of electric power to power those facilities, and whether there are going to be resources available to heavy up all of those lines to do the job that must be done. Whether financing comes at the standard rate of interest or whether it comes at the special rate of interest, in my judgment, is going to be a minor factor, considering the overall benefits that are going to come. That is a personal opinion.

Senator McGOVERN. Thank you, Mr. Hamil.

I think if we have additional questions, we can submit them to you. It may be that some of the other members of the committee will, but these are the things I was concerned about here today, and we do want to thank you and your associates for appearing.

I would like to ask that the table that you submitted be made a part of this hearing record.

[The table referred to follows:]

	Electric borrowers		Telephone borrowers	
	Number	Percent	Number	Percent
Based on data for calendar year:				
1971.....	181	19.5	191	23.4
1972.....	198	21.3	228	27.7
1973.....	235	25.3	294	35.1
1974.....	301	32.5	350	41.2
1975.....	373	40.3	422	48.7

The following statistics indicate how the proposed legislation (H.R. 12207 now before the Senate Agriculture and Forestry Committee) would stabilize the number of borrowers eligible for 2 percent loans at or near the level Congress envisioned when the present REA Act was passed:

	Electric	Telephone
Eligible using preliminary 1975 data.....	182	183
Eligible using 1974 data.....	185	177
Eligible originally in 1973 using the data then applicable.....	181	191

REA BORROWERS WITH SUBSTANTIAL INCREASES IN IRRIGATION LOADS 1972-75

	Percent increase megawatts sold for irrigation 1972-75	Consumers				Density		PRR		Percent of total sales used for irrigation	
		Residential		Irrigation		1972	1975	1972	1975	1972	1975
		1972	1975	1972	1975						
Mitchell, Neb., Roosevelt Public Power District	122	1,476	1,638	118	159	3.23	3.42	9.06	7.14	7.5	10.5
Bayard, Neb., Chimney Rock Public Power District	352	1,344	1,466	108	151	2.30	2.40	8.81	10.15	6.3	20.1
Stromsburg, Neb., Polk County Rural Public Power District	92	1,497	1,605	433	495	2.56	2.70	8.50	9.17	10.6	16.3
St. Paul, Neb., Howard Greely Rural Public Power District	62	1,593	1,700	465	473	1.77	1.88	8.38	8.20	14.54	19.10
Tekamah, Neb., Burt County Public Power District	149	2,599	3,334	126	180	1.63	1.92	9.13	8.84	1.9	3.4
Emerson, Neb., Northeast Nebraska Rural Public Power District	293	2,008	2,189	18	29	1.67	1.84	8.06	8.87	1.5	1.6
Battle Creek, Neb., Elkhorn Rural Public Power District	143	3,921	4,293	225	368	2.11	2.28	9.44	9.36	8.2	14.7
O'Neill, Neb., Niobrara Valley Electric Membership Corp.	64	2,584	2,931	137	169	1.42	1.56	8.46	9.23	21.8	24.5
Hay Springs, Neb., Northeast Rural Public Power District	211	1,489	1,627	126	194	1.17	1.32	10.15	9.35	17.93	36.69
Sidney, Neb., Wheat Belt Public Power District	147	2,749	2,367	290	476	1.43	1.50	8.37	10.18	27.6	39.9
Palisade, Neb., Southwest Public Power District	91	2,526	2,763	427	625	1.78	1.96	8.90	8.22	29.9	39.9
McCook, Neb., McCook Public Power District	65	2,772	2,852	337	505	1.52	1.61	8.11	9.15	24.2	26.0
Muleshoe, Tex., Bailey County Electric Cooperative Association	34	2,072	2,291	2,017	2,561	2.24	2.31	10.00	10.00	56.9	59.6
Altus, Calif., Surprise Valley Electric Cooperative	75	70	870	198	268	1.82	1.97	8.65	8.85	22.5	30.2
Deming, N. Mex., Columbus Electric Cooperative, Inc.	23	954	1,107	338	337	1.07	1.46	7.98	5.44	64.8	63.8
Malta, Idaho, Ratt Rural Electric Cooperative, Inc.	667	3,004	3,424	497	643	1.43	1.59	6.28	7.39	80.0	78.8
Hugo, Colo., K. C. Electric Association	616	1,787	1,953	142	438	1.90	1.99	6.87	6.36	21.8	61.6
Dodge City, Kans., The Victory Electric Cooperative						1.27	1.46	8.40	10.42	8.7	36.4

Mr. HAMIL. Thank you very much, Senator McGovern, for listening to us, and I will assure you if you have any questions or you need any information concerning the impact of such a proposal, if you will submit them to us, I will try to get answers to you almost by return mail.

Senator MCGOVERN. Thank you very much.

Mr. HAMIL. Probably by return messenger.

Senator MCGOVERN. Our other witness today is Mr. Loren Zingmark.

Mr. Zingmark is the general manager of the East River Electric Power Cooperative of Madison, S. Dak. He, too, has been before this committee before and is thoroughly acquainted with the whole rural electrification program. He has been looking down the road to some of the future problems and challenges that may face the REA users and suppliers.

So we are pleased to have you, Loren, before the committee, and we will be interested in your reaction to the pending measure.

**STATEMENT OF LOREN ZINGMARK, GENERAL MANAGER, EAST RIVER ELECTRIC POWER COOPERATIVE, INC., MADISON, S. DAK.**

Mr. ZINGMARK. Thank you, Mr. Chairman.

First I would like to point out to you and the members of the committee that for the many years that Mr. Hamil has been the Administrator of the Rural Electrification Administration, he has been most cooperative and kind and honest with East River for all of these many years that we have been before him on a number of occasions with problems that we have.

I appear before you today in opposition to H.R. 12207. Our organization has long opposed any changes in the loan criteria of the Rural Electrification Act. The membership of East River Electric Power Cooperative at their 26th annual meeting just this past Friday, September 10, again reaffirmed that position.

Mr. Chairman, as you have already stated, you are well acquainted with the agriculture conditions of our State. South Dakota is now experiencing one of the worst droughts in its history and these drought conditions are being experienced in the neighboring States of Nebraska, Iowa, Minnesota, and North Dakota.

I believe those rural electric cooperatives involved in this drought-stricken area would stand with me in my concern for the guy on the end of the line under these circumstances. Over 50 percent of the consumer-owners of our member electric distribution systems will have little or no crop whatsoever this year.

In several counties the farmer-ranchers are selling their cattle, their farms and ranches, and are seeking employment—if such can be found with the high unemployment today—elsewhere because of these severe drought conditions. Those who are left and still plan to try farming once again next spring will do so under extreme financial burdens.

I point this out, Mr. Chairman, to underscore the feeling of the people of our State when it comes to important items such as financing—not only for their own farm and ranch operations, but for the financing of their rural electric cooperatives. The cost of REA financing has a tremendous impact on the rates that these cooperatives must charge their farmer-owners.

The rural electrification program is one of remarkable success. Administrator Hamil, in addressing a gathering for the groundbreaking of the Laramie River Station at Wheatland, Wyo., just last month, remarked that during his term in that high office he had made loans in excess of \$18 billion and less than one one-thousandth of 1 percent of those loans have not been paid.

This, indeed, should be reason enough for the Congress of the United States to continue to finance this program at the low interest rates that were originally included in the Rural Electrification Act prior to the elimination of that act by a news story from the Department of Agriculture on that very black day in December 1972.

As a result of that action in December 1972, Congress developed Public Law 93-32, which became law on May 11, 1973. This reinstated the Rural Electrification Act, provided for a revolving fund, a guaranteed loan program, and established criteria for loan qualifications.

The net effect, however, was to increase the cost of power to the ultimate consumer because it established higher interest rates for loans. Even those distribution systems still qualifying for 2-percent loans have found their generation and transmission cooperatives raising their wholesale electric rates because of these higher interest costs.

Although some of the generation cooperatives under this law were forced to go to the money market and pay the going rate for interest, they have still been required to meet restrictions developed in the original act.

If H.R. 12207 passes and the Rural Electrification Act is amended the additional expense caused thereby, coupled with the staggering wholesale power cost increases I mentioned before, I fear will bankrupt many of the rural electric cooperatives in our State as well as in the Nation.

The cost of financing power and transmission facilities for rural electric cooperatives is astounding. I have attached to this statement two charts which depict what is happening in the area of power costs to the rural electric members who are owners of East River Electric Power Cooperative.

You will note on exhibit A, the chart that deals with the power costs from East River Electric Power Cooperative. During the first 15 years of East River's operation, not one rate increase was adopted by its board of directors. Since that time, however, we have had a rate increase every year because of the increased cost of wholesale power.

Our power supplier, and here I am speaking of Basin Electric Power Cooperative, has no choice but to pass its increased costs on to its class A members. We, as a class A member of Basin, have no choice but to pass this increased cost resulting from both inflation and these higher interest rates, on to our member distribution cooperatives and they, in turn, must pass it on to the ultimate consumer. In this case, the farmer-member must absorb these higher electric costs. Since he does not have any control over the price he gets for his product, he is caught in another vicious cost-price squeeze.

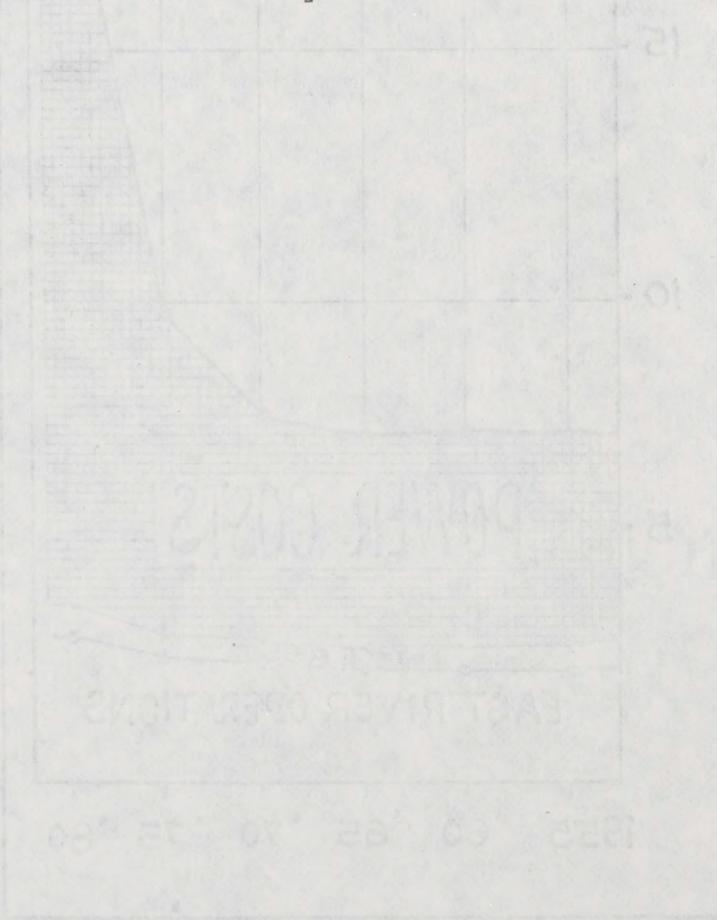
Exhibit B projects the anticipated wholesale power costs from the Laramie River Station. This further illustrates our story, Mr. Chairman. In 1972, Basin Electric Power Cooperative, which I previously mentioned, along with Heartland Consumers Power District of the State of South Dakota, and the Missouri Basin Municipal Power Agency, announced they were going to study plans for the construction of a coal-fired generating plant on a joint basis.

Since that time, three other consumer-owned systems have joined in this endeavor to construct the Laramie River Station near Wheatland, Wyo. This large power complex, consisting of three 500-mega-watt units, will be the incremental power supply for a majority of the Missouri Basin consumer-owned electric utilities through the years 1980 to 1985.

You will note on exhibit B, the interest charge for that complex alone is over 14 mills per kWh.

Mr. Chairman, that represents a larger cost for interest alone than East River's total wholesale power rate will be to its members in 1977.

[Exhibits A and B follow:]



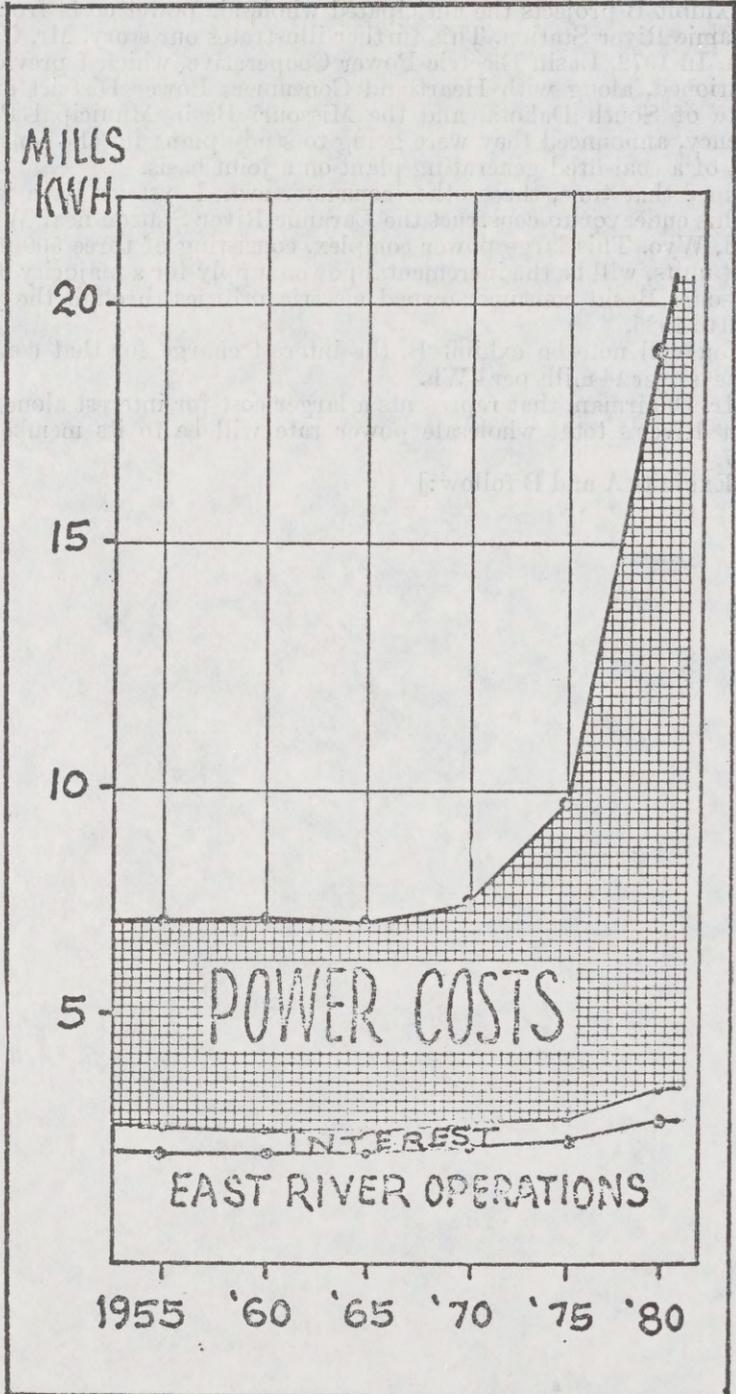
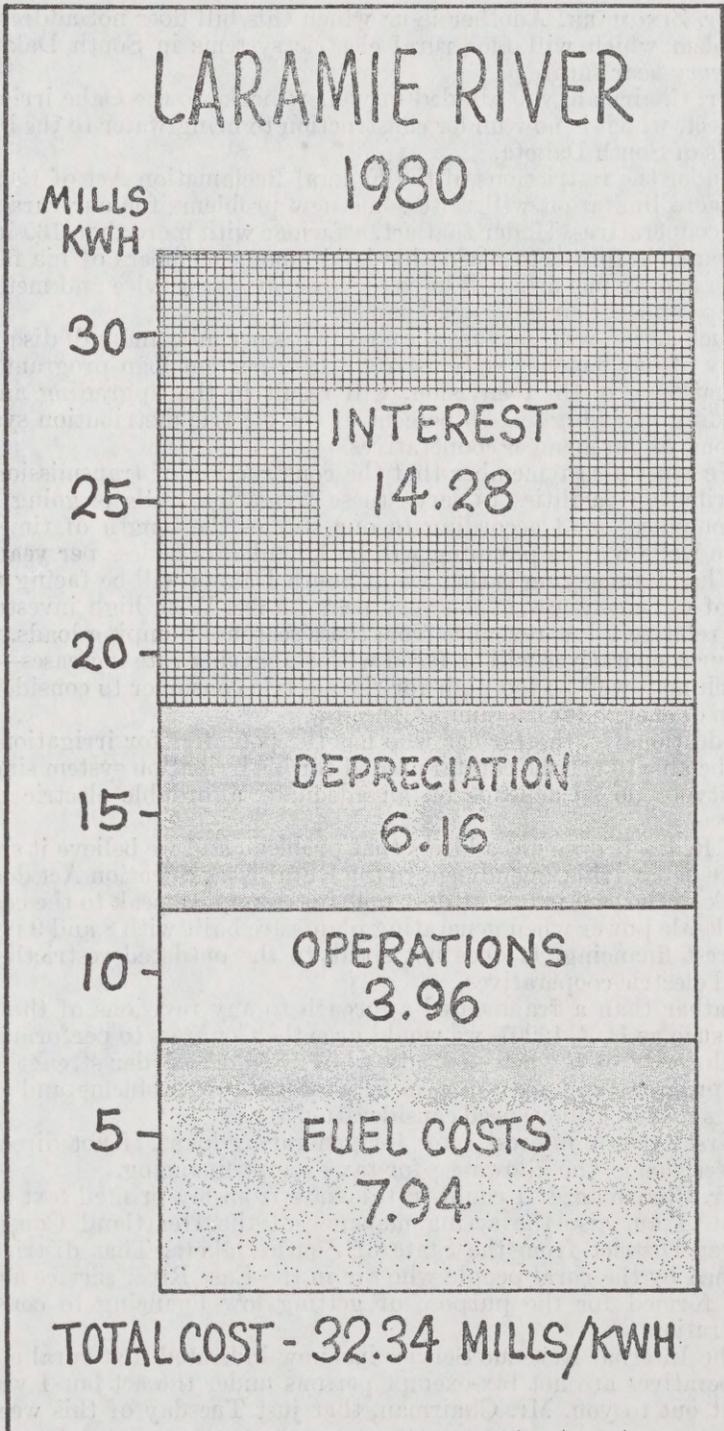


EXHIBIT A



Mr. ZINGMARK. Another issue which this bill does not address is a problem which will face rural electric systems in South Dakota in the very near future.

Mr. Chairman, you alluded in your remarks to the Oahe irrigation project, which is now under construction to bring water to the barren lands of South Dakota.

Under the restrictions of the Federal Reclamation Act of 1902, the 160-acre limitation will raise some new problems for our rural electric cooperatives. Under that act, a farmer with more than 160 irrigable acres is forced to divide his land among members of his family. Each family member will have to subscribe for service and meter the pumps under their individual names.

Such action will increase the consumers per mile and will disqualify many of our member systems from the 2-percent loan program. This irrigation growth, I envision, will result in the upgrading and rebuilding of as high as 70 percent of the electric distribution systems of some of our member cooperatives.

We must also remember that the construction of transmission and distribution facilities to serve these irrigation wells is going to be astronomical, and according to our studies the length of time that these wells will be pumping will be 1,800 hours or less per year.

What I am saying is that we in South Dakota will be facing a new set of circumstances in the very near future. With high investments and relatively low revenues from these seasonal pumping loads, many of our cooperatives will be faced with staggering rate increases—rates which may well be too high for the electric consumer to consider this form of energy for his pumping needs.

Additionally, the farmer who has the potential for irrigation may not be able to get the capital needed for his irrigation system since his ability to do so depends on an adequate, affordable electric power source.

H.R. 12207 does not address that problem, and we believe it should.

We believe this amendment to the Rural Electrification Act does not speak to the real issues. It does not, for example, speak to the cost for wholesale power when generating plants are built with 8 and 9 percent interest financing. It does not speak to the outdated restrictions on rural electric cooperatives.

Rather than a fragmented approach to any revisions of the REA Act such as H.R. 12207, we would urge the Congress to perform an in-depth study of the act—a study which would consider strengthening the program and updating it to meet today's problems and needs. Areas that we believe need consideration are:

First: Lower interest rates for generating loans, if not direct low interest loans, the allowance for tax exempt financing.

Mr. Chairman, if I could just deviate from my printed text at this point. I am also the acting manager of the Heartland Consumers Power District from the State of South Dakota. That district was formed by the rural people who are in the East River service area. It was formed for the purpose of getting low financing to construct generation.

The Internal Revenue Service has now indicated that rural electric cooperatives are not tax-exempt persons under the act but I want to point out to you, Mr. Chairman, that just Tuesday of this week the

Heartland board signed for a note in the amount of \$1 million for front-end financing with the National Bank of South Dakota for 4 $\frac{7}{8}$  percent interest.

Mr. Chairman, for every 1 percentage interest point on the Laramie River Station, it is over a mill and a half a kilowatt hour. That means that the 2 or 3 percentage points that we could save on that interest cost is more than what it cost to operate East River system and pay off its loan and everything else. That is the importance of an interest rate that is low for the people on the end of the line.

Other areas we believe need consideration are :

Second, 2-percent-interest rates for distribution system loans in agricultural areas with low density.

Third, raise the criteria provision on density for 2-percent loans to four consumers per mile.

Fourth, relaxing restrictions in the act so that a generation cooperative may construct generation facilities and sell some of the output of these facilities to other consumer-owned utilities.

Fifth, allow electric cooperatives to borrow from REA for the installation of transmission facilities and contract with other consumer-owned utilities where such investments would be beneficial to both parties, and, in our opinion, this would allow the orderly construction of facilities and capacity for both systems and allow the other utility to pay for this transmission capacity in a wheeling charge and in many cases present a duplication of lines.

We strongly believe, Mr. Chairman, that it would be advisable for the Congress to go slow on this or any further amendments to the Rural Electrification Act at this time. And, when the Congress reconvenes in 1977 a complete study should be made of this act by the Congress in cooperation with other rural electric cooperatives, and I assure you, Mr. Chairman, that East River pledges its support and cooperation in this study.

My testimony today raises many points which we believe should be studied by the Congress of the United States, before any further changes are made to the Rural Electrification Act.

Mr. Chairman, we appreciate the opportunity to present our views on this important matter. The House did not afford us this opportunity to be heard, so we are especially indebted to you and the committee members for this hearing.

We thank you for your interest and hope the aforementioned problems can be resolved in an equitable manner for the "guy on the end of the line."

Thank you, Mr. Chairman.

Senator McGovern. Thank you, Mr. Zingmark, for your testimony. It is a very thoughtful statement. I know you have given a lot of consideration and thought to this matter.

I want you to know that the reason, or one of the reasons the Senate hasn't acted more quickly on this legislation is that as chairman of this subcommittee, I was reluctant to see it rushed through until everyone had an opportunity to react to it that had a legitimate interest.

I thought it was a far-reaching change in the law and that, without reflecting any criticism on the other body, I did think we ought to move with some deliberation over here and provide opportunity for you and others who are interested in the bill to be heard, and also to

give us a little time just to reflect on what the ramifications of the legislation might be, and that is why we haven't acted all summer long and on into the fall.

But we are nearing an end to this session and I thought in all fairness to those who have worked on the bill, we also had an obligation to schedule a hearing and to make a judgment as to what we are going to do, rather than simply let it die from inaction.

In your testimony you make the statement on page 3 that if this measure passes, coupled with the staggering wholesale power cost increases that you have mentioned before, that you fear it will bankrupt many of the rural electric cooperatives in our State as well as in the Nation.

How do you draw that conclusion based on the assurances that you have heard Mr. Hamil give us that the law, irrespective of this particular amendment, does provide the Administrator with authority to deal with extenuating circumstances? Presumably the threat of bankruptcy is an extenuating circumstance.

Do you draw any assurance from the Administrator's statements along that line that he and his predecessors have been prepared to meet critical situations of this kind in the past and would be in the future?

Mr. ZINGMARK. Yes; I heard the Administrator mentioning the fact that provision is now in the law where they can make what they call a special interest rate.

To be honest with you, Mr. Chairman, I don't like to refer to it as "special interest rate." I think those people are entitled to that kind of rate and not be found as being special.

He did indicate he has that authority. However, to the best of my knowledge, I also believe that the Administrator also has the final approval of the rate or rates to be charged the consumer, and it could be that because of the rate that the cooperative board of directors have adopted, the Administrator may not approve of that and therefore asking that it be increased, thereby permitting them to get into another area of financing, and when you couple the additional interest costs on that system and everything else that he does, coupled with the fact that every cent of the principal has to be paid back, to me it is just staggering when you look into the future, Mr. Chairman.

By the mid-1980's, I would say that East River's wholesale rate is going to double, and when you meet with those farmers around the table who have had no income, some of them, for almost 3 years, and you think to yourself that now your electric rate is going to double, and I say that it will because at the present time anywhere from 45 to 55 percent of that distribution system operation is power cost, and you double that power cost and it is going to be up closer to 80 percent.

And the only way that cooperative is going to get it back is through its retail rate to that ultimate consumer, and you add on top of that a higher interest rate, I am extremely alarmed over what the ultimate outcome will be, because I still believe that if the rate is too low the Administrator has the authority to raise it.

Senator McGOVERN. If I understand your position, and you opened with some laudatory comments about Mr. Hamil, you are suggesting

to us that we still, in this country, have to rely on laws rather than men, that administrators come and go, and that what you are looking for is some assurance in the law that low-interest funding is going to be available at a time when the costs of operations are going to be high even if we don't change this criteria?

Mr. ZINGMARK. Yes; one of the things that the Administrator alluded to, of course, was the irrigation, and you referred back to the 160-acre limitation, and we support that, Mr. Chairman. Without it, we are going to have nothing but corporations in our State, I fear, and so we are very strongly in favor of that 160-acre limitation.

It is true that some of the boards of directors make the consumer construct the line to the center of the field, to the pivot. However, there has to be a tremendous amount of investment made in the distribution system before it gets to that point where you can tie onto it and build to the center of that field.

Many of our systems, I am sure, Mr. Chairman, are going to at least triple their investments when that becomes a reality.

Another thing, Mr. Chairman, when we talk about consumers per mile, and I would like to give you an example, if I may: I was born and raised on a farm north of Salem, S. Dak. My brother now owns that farm. The farm buildings are abandoned, but my brother does keep the meter there so in case he gets any grain to elevate, for example, he can use that meter to put the grains in the building.

This year he has no problem with that. But that is another consumer. Under the criteria the act requires that that cooperative furnish electric service to everyone requesting it in the service area, so that cooperative has to have the meter on that vacated farm and that puts their cooperative, and this is McCook Electric at Salem, the 2.03 consumers per mile, puts them from 2 to 5 percent under that criteria.

I know that cooperative, seeing as how it is my home country, so to speak. They have a number of pasture wells where a farmer has got a pump out there and they have a meter and they might use it 2 or 3 months out of the year, but that increases the density to over two consumers per mile and puts them in a 5-percent-interest bracket, and yet it is one farmer that is paying the bill, and to me a consumer is an individual, not a meter.

Senator MCGOVERN. Did you understand Mr. Hamil to indicate that there is some flexibility between the user that is the customer and the cooperative itself, that is, the board of directors could work out an arrangement that if one farmer had two or three meters he still might be treated as a single customer?

Did you understand him to say there is some latitude for the individual cooperative; that is, the board for working out arrangements to treat farmers who might have three or four meters as a single customer?

Mr. ZINGMARK. I heard him allude to that to some degree. I did understand him to say he was coming out with a policy on it and if that is the case, then perhaps some of these areas which I feel are totally inequitable, may be corrected.

Senator MCGOVERN. I think we ought to send an inquiry to the Administrator as to specifically what he meant because I understood him to say that the individual cooperative would have some flexibility

as to how they bill a farmer or a farm family that might have several meters on their property.\*

Mr. ZINGMARK, if you were to look down the road 10 years, what do you estimate your wholesale rates are going to be? Maybe you go into that in your statement, but I just don't recall.

Mr. ZINGMARK. I would say they are going to at least double from what we are able to predict now. Our rate for 1977 is about 12.6 mills. By 1981, we estimate that to be about 21, and just at that time do we start feeling the effects of the Laramie River station.

Senator McGOVERN. How does that translate as far as the consumer at the end of the line is concerned? You are a transmission cooperative and qualified to respond to this kind of question.

Mr. ZINGMARK. I would say, Mr. Chairman, it is going to come very close to doubling his rate at the end of the line because by that period of time I would estimate that the average, an average budget of a distribution system would show that the power costs are going to be about 80 percent, very close to that, and so if the wholesale power rate doubles, it is merely going to double on the distribution side.

Senator McGOVERN. If those estimates are right, how did you relate that situation to this pending legislation?

Supposing we were to pass this bill just as it is, with the so-called grandfather clause, so that it doesn't affect the pending application, how does this projected doubling of power rates relate to the legislation before us?

Mr. ZINGMARK. Well, to many of our member systems, Mr. Chairman, it will more than double their interest rate, from 2 to 5 percent.

Senator McGOVERN. In other words, you predict there will be doubling of rates even if we don't pass this legislation?

Mr. ZINGMARK. Except it will only add to the cost of that rate by passing this.

Senator McGOVERN. You have attached a couple of graphs that I hope we can make a part of the hearing record. I would appreciate your further comments on the costs of operating the East River system during the past 25 years. I know you are familiar with the operation of East River over a long period of time. Can you just elaborate a little bit on what has been happening over the period that you are familiar with of the operating costs of East River?

Mr. ZINGMARK. I would be glad to. I have been there for those 25 years, except for 2.

Senator McGOVERN. Yes; I know you have.

Mr. ZINGMARK. We have been very fortunate, the board of directors have adopted some very, I believe, fine policies in our operation. Even though we have been hit with a tremendous inflation in the last several years, the actual cost of operating the East River system has only increased about 10 percent.

Even though we are now paying \$700 for a pole, compared to \$70 a few years ago, we are now paying a lineman somewhere between \$8 and \$9 an hour, when we were paying him \$3 a few years ago.

We have been able to hold the line to not more than a 10-percent increase. However, if you will note on that chart, Mr. Chairman, that beginning in the 1980's is when we start feeling the effect of 5-percent interest.

\*See p. 28.

When our original loans at 2 percent get paid off and you start borrowing it back at 5 percent and you start having to borrow four times as much money to construct 1 mile of line as you did in the early years, that particular item in itself is becoming a larger and larger part of our cost of operation and so as I look to the future, the one item that if the inflation slows down, the one cost that is going to skyrocket for us besides power costs will be the cost of interest.

Senator McGOVERN. Just by way of summary, as I understand the appeal you are making to the committee, Mr. Zingmark. It is not based on any feeling on your part that the REA program today is perfect; quite the contrary, you are calling for a critical review of the existing program, but you are suggesting that the direction of this legislation complicates your problems and that what you would like the committee to do is to defer any action on this bill until we come back in January, and then begin a review of the whole REA program, looking down the road to the kind of changes that would head off what you see to be very serious problems for the systems?

Mr. ZINGMARK. Yes, sir, we certainly are.

We have many different types of contracts with States and municipalities. It has been a very fine working relationship, but yet we are constantly hampered by not being able to develop the kind of contracts that would be most beneficial to us and to other consumer-owned utilities on the long-range basis.

Everything has to be excess, 2 years, 3 years, and it becomes almost unreasonable to work under those kinds of conditions.

We have been told, by the way, Mr. Chairman, by members of the rural electric office here in Washington that what we are doing is good; it is a good financial, it is a good working relationship, except that the act does not provide for it.

Senator McGOVERN. I think in addition to the matter that I mentioned here awhile ago that we will request Mr. Hamil to furnish, I will ask the staff in submitting that request to add to it a request that Mr. Hamil provide a record of examples of the facts and circumstances which have led him to use this authority that he referred to to make loans under extenuating circumstances.

I would like to know from past experience what the Administration considers to be an extenuating circumstance, what are the illustrations, under what conditions have they made exceptions of that kind.

I think that would be helpful in guiding the subcommittee and its judgment on this legislation before us.

Did you have any other points you wanted to make?

Mr. ZINGMARK. No; I didn't, Mr. Chairman.

Senator McGOVERN. Thank you very much, Mr. Zingmark.

I would like to ask also that a statement by Senator Helms, who is a member of the Agriculture Committee, be inserted in the record.\*

We do have one additional statement from the Telephone Association, the Rural Telephone Association, and we will ask that it be made a part of the record.\*\*

If there are no further witnesses, the subcommittee will stand adjourned.

[Whereupon, at 3:30 p.m., the subcommittee was adjourned, subject to call of the Chair.]

\*See p. 27 for the statement of Senator Helms.

\*\*See p. 36 for the statement of the Rural Telephone Association.

## ADDITIONAL STATEMENTS AND INFORMATION CONCERNING H.R. 12207

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STATEMENT OF HON. HUBERT H. HUMPHREY, A U.S. SENATOR FROM MINNESOTA

Mr. CHAIRMAN: I wish to commend you for calling this hearing together to examine the amendments to the Rural Electrification Act. H.R. 12207.

There appears to be widespread support for this legislation which would change the criteria for the two percent insured loans. I would suggest that your hearing should focus carefully on the implications of the changes proposed in this legislation and in particular the likely impact in future years.

I also feel that consideration should be given to those applications in hand where the prospective borrower applied for the two percent loan on the basis of the already existing criteria. It is my understanding that the House Committee on Agriculture is agreeable to including such language in the bill.

I know that your Subcommittee will give careful consideration to the testimony and the implications for this program.

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STATEMENT OF HON. ROBERT DOLE, A U.S. SENATOR FROM KANSAS

Mr. Chairman: In the seven year period, 1961-1968, \$3.5 billion was made available to rural electric and telephone systems through REA loans.

By comparison, in the past 7½ years, 1969 through June 30, 1976, \$4 billion has been loaned by REA to rural electric and telephone systems. During this same period an additional \$4.5 billion was made available to these systems through REA loan guarantees and with loans by the Rural Telephone Bank.

The Rural Telephone Bank was created May 7, 1971, providing the first and principal source of supplemental financing for rural telephone systems. The Bank has made \$737,194,880 in loans.

On May 11, 1973, still another constructive move made more funds available for rural electric and telephone systems. This was the creation of the REA guarantee loan program. REA since has committed \$3.4 billion to electric systems under this program and \$381.6 million to telephone systems.

This authority is being used to meet the urgent need for more electric energy in rural America. A recent study shows that farms served by REA-financed rural electric cooperatives account for 75.4 percent of the total wheat grown in the United States, 80.4 percent of the corn, and 72.4 percent of the livestock.

These significant advances of the past 7½ years have greatly helped stimulate economic growth in rural America. Also, the present REA Administrator is instrumental in creating the National Rural Utilities Cooperative Finance Corporation (CFC), and has led in the development of this supplemental source of money for rural electric cooperatives. CFC has loaned \$595,887,410 to rural electric systems to date. The need is certainly there—and this Administration is meeting it.

But, to protect and continue the progress being made, an examination of the program is necessary. I understand that such examination has shown that the number of borrowers from the REA eligible for 2 percent financing has been increasing at such a pace that from the initial enactment of the current criteria to the present, the number of electric borrowers eligible for 2 percent financing has risen from 187 to 372, and the number of telephone borrowers eligible for this special rate financing has risen from 191 to 422.

Mr. Chairman, if this trend continues, it most certainly will threaten the entire insured loan program of REA. With a national deficit of \$65 billion in fiscal year 1976, we must review every area of funding inequity. As I understand it,

the technical amendment in H.R. 12207 will make a necessary change in the criteria used in establishing eligibility for 2 percent funds. By eliminating the revenue per mile criteria and establishing a plant revenue ratio, the inequities resulting from the present criteria will be eliminated and the number of borrowers eligible for 2 percent financing stabilized.

The net effect will make a more equitable allocation of 2 percent money for those borrowers capable of paying the standard rate of 5 percent. Although even this rate is below the Government's cost of money, this action will produce a saving to the U.S. taxpayer. Lending less money at the maximum subsidy rate will, I understand, produce interest savings amounting to \$52 million by 1981.

Mr. Chairman, the National Rural Electric Cooperative Association, the National Telephone Cooperative Association, the National Rural Electrification Administration Telephone Association, and the Administration have all endorsed this bill during hearings held by the House subcommittee. Mr. Chairman, I support H.R. 12207.

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STATEMENT OF HON. JESSE HELMS, A U.S. SENATOR FROM NORTH CAROLINA

Mr. Chairman, I appreciate the opportunity to bring to the attention of the subcommittee the great interest and concern the REA borrowers in North Carolina have in H.R. 12207.

As the Senators know, this bill passed the House of Representatives without objection. We have heard testimony from the administrators of the Rural Electrification Administration which demonstrates the urgent need for this technical amendment, if the REA program is to continue to make funds available to all potential borrowers.

Additionally, I have received numerous communications from REA borrowers in my State of North Carolina. My people have told me that they consider H.R. 12207 essential to the fiscal strength of the REA programs—and indeed, to the survival of the REA programs. They have told me in the strongest terms that the current loan criteria do not accurately reflect the actual situation and existing power costs.

By artificially holding down their rates, companies in some States are able to cut their per-customer revenue below the current dollar criteria figure in current legislation. This is an artificial strategem which is not fair to the taxpayers, and is prejudicial to the interests of other borrowers who have raised their rates to reflect the true impact of inflation.

At the request of the REA borrowers in my State, I would respectfully urge that the bill be reported from the subcommittee without delay.

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[The following letter was referred to on p. 4.]

CONGRESS OF THE UNITED STATES,  
HOUSE OF REPRESENTATIVES,  
Washington, D.C., September 16, 1976.

HON. GEORGE S. MCGOVERN,  
*Chairman, Subcommittee on Agricultural Credit and Rural Electrification, Senate Committee on Agriculture and Forestry, Russell Senate Office Building, Washington, D.C.*

DEAR GEORGE: We want to thank and commend you for calling a hearing on H.R. 12207, which amends the eligibility criteria for REA 2 percent loans.

Although we joined the majority when this measure passed the House, we did so on the basis of what has proven to be incomplete information as to its impact on South Dakota cooperatives. It is apparent that others who supported the bill in the House may also have done so without adequate knowledge of the consequences.

In light of the complexity of this matter, we believe that enactment of H.R. 12207 should be deferred pending a thorough review of its implications for rural power consumers. Certainly, the integrity of the trust fund must be protected. We should be fully aware of the effects of our actions in doing so, however.

Again, we commend you for your consideration of this important issue. We know that the Committee's action will reflect the best interests of rural power users and South Dakota's cooperatives in particular.

Sincerely,

LARRY PRESSLER,  
Member of Congress.  
JAMES ABDNOR,  
Member of Congress.

[The following material was referred to on pps. 24 and 25.]

U.S. DEPARTMENT OF AGRICULTURE,  
RURAL ELECTRIFICATION ADMINISTRATION,  
Washington, D.C., September 21, 1976.

Hon. GEORGE MCGOVERN,

*Chairman, Subcommittee on Agricultural Credit and Rural Electrification, Agriculture and Forestry Committee, U.S. Senate, Washington, D.C.*

DEAR SENATOR MCGOVERN: This is in response to the questions you asked about REA's means of counting consumers in establishing eligibility of borrowers for 2 percent loans under the density criteria of the RE Act.

A separate consumer is defined as a service for each patron for which a charge is either billed or computed separately. There are a few exceptions. For example, water heating service should not be counted as an additional consumer in determining the "Number Receiving Service" even when separately metered. However, two separately metered apartments in the same house should be counted as two consumers.

Normally, power is provided for irrigation at locations some distance from the residence. Sometimes this requires several miles of high voltage line. Often a three-phase high voltage line must be constructed to serve this load which requires twice the cable, heavier poles and crossarms, and three times the number of transformers as a typical residence. The special rates used for irrigation loads by many borrowers require the use of two meters, a demand meter and an energy meter. These reasons, including the significant investments by the borrower, plus the fact that energy rates for irrigation are generally lower than residential rates and must be accounted for differently, have constituted the basis, historically, for counting this type of installation as a separate consumer. This same practice in determining borrowers' density has been followed consistently since the present interest rate criteria was first adopted.

You asked for examples and instances when the discretionary authority of the Administrator was used in determining whether a borrower was experiencing extenuating circumstances and a 2 percent loan was approved. A list of such loans is attached, including the amounts and dates the loans were approved.

If the number of borrowers eligible under the mandatory criteria in either program were reduced, through enactment of the pending legislation, the number of instances for the Administrator to use the discretionary authority would in all probability be increased.

We are also including a table that illustrates the relatively small impact that the proposed change in interest rate criteria would have on the total cost of borrowed capital for the electric program.

Sincerely,

DAVID A. HAMIL.

Attachments.

#### REA 2 PERCENT DISCRETIONARY LOANS ELECTRIC PROGRAM

KOTZEBUE ELECTRIC ASSOCIATION, INC. (ALASKA 13-D-4), KOTZEBUE, ALASKA

Loan approved, June 7, 1973; amount, \$681,000—High cost of self-generated power and extremely high retail rates.

NUSHAGAK ELECTRIC COOPERATIVE, INC. (ALASKA 26-B-4), DILLINGHAM, ALASKA

Loan approved, June 7, 1973; amount, \$595,000—High cost of self-generated power and extremely high retail rates.

SWAN'S ISLAND ELECTRIC COOPERATIVE, INC. (MAINE 16-N-4), MINTURN, MAINE

Loan approved, November 21, 1973; amount, \$119,000—Small island cooperative—limited economic potential—heavy investment in power supply.

SAN PATRICIO ELECTRIC COOPERATIVE, INC. (TEXAS 91-AC-4), SINTON, TEXAS

Loan approved, December 3, 1973; amount, \$629,000—This borrower received a discretionary loan of \$629,000 because it experienced extreme hardships due to losses resulting from three hurricanes during the past six years in an already high cost-of-maintenance area because of salt contamination.

A & N ELECTRIC COOPERATIVE (VIRGINIA 39-AA-4), PARKSLEY, VIRGINIA

Loan approved, December 12, 1973; amount, \$1,429,000—To provide retail rate relief for consumers on Tangier and Smith Islands caused by high cost of isolated generation.

PAPAGO TRIBAL UTILITY AUTHORITY (ARIZONA 30-A-4), SELLS, ARIZONA

Loan approved, March 18, 1974; amount, \$1,320,000—"A" loan to facilitate mining and industrial development and improve living conditions on an Indian reservation through the use of electricity. The loan of \$1,320,000 was made to serve 250 consumers, including a mining company, and 49 miles of 69 kV transmission line.

COPPER VALLEY ELECTRIC ASSOCIATION, INC. (ALASKA 18-L-4), GLENNALLEN, ALASKA

Loan approved, April 4, 1974; amount, \$347,000—High cost of self-generated power and extremely high retail rates.

EASTERN MAINE ELECTRIC COOPERATIVE, INC. (MAINE 12-T-4), CALAIS, MAINE

Loan approved, April 4, 1974; amount, \$1,282,000—Poor economic conditions in service area—high retail rates and rapidly escalating costs.

GLACIER HIGHWAY ELECTRIC ASSOCIATION, INC. (ALASKA 7-F-4), AUKE BAY, ALASKA

Loan approved, April 24, 1974; amount, \$500,000—High cost of self-generated power and extremely high retail rates.

ANZA ELECTRIC COOPERATIVE, INC. (CALIFORNIA 41-N-4), ANZA, CALIFORNIA

Loan approved, April 26, 1974; amount, \$387,000—Increasing cost of wholesale power resulting in need for higher retail rates which were already higher than other utilities in the area.

HARRISON RURAL ELECTRIFICATION ASSOCIATION, INC. (W. VA. 10-AE-4),  
CLARKSBURG, WEST VIRGINIA

Loan approved, July 1, 1974; amount, \$860,000—Poor economic conditions in service area—high retail rates and rapidly escalating costs.

ALASKA VILLAGE ELECTRIC COOPERATIVE, INC. (ALASKA 27-B-4), ANCHORAGE, ALASKA

Loan approved, November 7, 1974; amount, \$5,056,000—High cost of self-generated power and extremely high retail rates.

A & N ELECTRIC COOPERATIVE (VIRGINIA 39-AA-4), PARKSLEY, VIRGINIA

Loan approved, August 15, 1974; amount, \$1,429,000—Since merging with Virginia 49, this cooperative had steadily declining profits mainly due to the cost incurred by operating the Chesapeake Island (Virginia 49) portion of the system. In order to alleviate some of this cost and reduce the already excessive cost of electricity on the islands, this loan was recommended at 2 percent.

## METLAKATLA POWER AND LIGHT (ALASKA 11-E-4), METLAKATLA, ALASKA

Loan approved, July 29, 1975; amount, \$281,000—Poor economic conditions caused by the loss of a Coast Guard air station and sawmill and declining fish runs combined with fuel prices, which have doubled in the past year, and rising material prices to make this a hardship case.

## FOX ISLANDS ELECTRIC COOPERATIVE, INC. (MAINE 19-A-4), VINALHAVEN, MAINE

Loan approved, August 22, 1975; amount \$2,689,000—The Administrator found that service has so deteriorated that the islands to be served by the cooperative were not receiving central station service. Due to a low economic situation—prices which were in general 15 to 20 percent higher than those on the mainland—it was felt this cooperative needed lower interest rates. The result of the 2 percent interest rate would be a 7 percent increase in rates as opposed to a 35 percent increase which would accompany the 5 percent interest rate.

## ANZA ELECTRIC COOPERATIVE, INC. (CALIFORNIA 41-P-4), ANZA, CALIFORNIA

Loan approved, October 14, 1975; amount, \$364,000—Due to extremely high power costs, this cooperative has rates almost twice that of the national average. In addition, the economy of this area is very low since the majority of residents are on social security or other fixed incomes. In this labor market, salaries are just above the poverty level according to the 1970 census.

## SIERRA PACIFIC POWER COMPANY (NEVADA 21-B-4), RENO, NEVADA

Loan approved, November 7, 1975; amount, \$148,000—This loan was made to Sierra Pacific Power Company to provide central station service to the Yomba Indian Reservation. Consumer density on the line to be constructed is less than one per mile. In addition, due to the poor economic conditions of the Reservation, it would be impossible to serve the Reservation without having existing consumers directly subsidize the project.

## NUSHAGAK ELECTRIC COOPERATIVE, INC. (ALASKA 26-C-4), DILLINGHAM, ALASKA

Loan approved, April 8, 1976; amount, \$882,000—High cost of self-generated power, very high retail rates, poor operating conditions, and poor economic conditions of the service area.

## ANZA ELECTRIC COOPERATIVE, INC. (CALIFORNIA 41-R-4), ANZA, CALIFORNIA

Loan approved, September 17, 1976; amount, \$776,000—Due to high wholesale power costs, this borrower's retail rates are considerably above the rates of surrounding electric utilities, and its cost per kWh for residential consumers is more than twice the national average. In addition, the economy of this area is very low since the majority of residents are on social security or other fixed incomes, and the median salary of those in the labor market is just above the poverty level according to the 1970 census.

## REA 2 PERCENT DISCRETIONARY LOANS TELEPHONE PROGRAM

## EMILY COOPERATIVE TELEPHONE COMPANY (MINNESOTA 620), EMILY, MINNESOTA

Loan approved, September 23, 1974; amount, \$1,700,000—Our studies indicated that providing adequate telephone service at reasonable rates to this area was contingent upon obtaining a 2 percent loan.

## OTZ TELEPHONE COOPERATIVE, INC. (ALASKA 516), KOTZEBUE, ALASKA

Loan approved, June 16, 1974; amount, \$3,355,000—This newly formed cooperative was organized solely for the purpose of providing adequate telephone service to subscribers located above the Arctic Circle. It covers about 36,000 square miles. The discretionary authority was used to enable the cooperative to serve as many rural families as possible at reasonable rates.

NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION,  
*Washington, D.C., September 21, 1976.*

Hon. GEORGE MCGOVERN,  
*U.S. Senate,*  
*Washington, D.C.*

DEAR SENATOR MCGOVERN: We appreciate very much the opportunity to submit a statement for inclusion in the report of the hearings before the Senate Agricultural Subcommittee on Agriculture Credit and Rural Electrification held on September 17. The attached statement reiterates our position of support for the REA Technical Amendments Act of 1976. A resolution favoring adoption of the amendments contained in this act was adopted unanimously by the NRECA membership at our Annual Meeting earlier this year.

We concur completely, Senator McGovern, with the proposal that electric loan applications on hand at REA on the date that the amendment becomes law and which are qualified for the special rate of 2 percent under the average gross revenue criterion (Section 305(b)(2) of the present RE Act), should remain mandatorily eligible for the special rate of 2 percent until the pending application has been processed through REA and the loan has been made at the 2 percent rate. We believe there is legislative precedent to support this proposal.

We firmly believe that the REA Technical Amendments Act will strengthen the REA loan program by eliminating the inadequacies of the present mandatory criteria. We respectfully request your support for these changes.

Sincerely yours,

ROBERT D. PARTRIDGE,  
*Executive Vice President and General Manager.*

STATEMENT OF ROBERT D. PARTRIDGE, EXECUTIVE VICE PRESIDENT AND GENERAL  
 MANAGER, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION

For the record, my name is Robert D. Partridge. The organization I represent as Executive Vice President and General Manager is the National Rural Electric Cooperative Association (NRECA), which is comprised of approximately 1,000 rural electric systems—mostly cooperatives—serving consumer-members in 46 states, Puerto Rico and the Virgin Islands. These member systems own and use more than 40% of all the electric distribution line in the United States.

We appreciate this opportunity to present our views on the proposed REA Technical Amendments Act of 1976, H.R. 12206 and H.R. 12207. We particularly appreciate the interest of this committee in dealing with this rather detailed and technical but important legislation.

The purposes of these technical amendments to the Rural Electrification Act are twofold:

First, to remedy the malfunctioning of one criterion for mandatory loans by REA at the 2% special interest rate, the remedy for which will substantially reduce the number of borrowers eligible for and the amount to be loaned at such rate; and

Second, to transfer certain previously appropriated but unobligated monies from one account to another. These are clearly technical amendments, notwithstanding their importance to the future functioning of the Rural Electrification Act and the loans programs administered by REA.

The REA lending authority under the present Rural Electrification Act is providing the capital required by the rural electric systems, and the loan program is basically excellent. It is incomparably better than the program that was attempted briefly in the early part of 1973 under the Rural Development Act.

No change in the present RE Act would be needed today, as far as the rural electric systems are concerned, had the generally accepted economic assumptions of early 1973 proved to be accurate. The mandatory criteria for REA insured loans at the special interest rate would have worked with acceptable selectivity, and the number of REA borrowers eligible for the special interest rate would have been relatively stable. However, the unpredictably extreme increases in fuel prices caused distortions in normal patterns of rates and revenues. The result was that one of the statutory measures of need for the special interest rate has not worked as anticipated. The legislation you are now considering would replace the malfunctioning criterion with one that would achieve the result initially intended by Congress. It would also transfer previously appropriated loan funds from an inactive account to an active account, the Rural Electric and Telephone Revolving Fund.

Before discussing the proposed amendments with greater precision, permit me if you will, please, to review a sequence of events related to this proposed legislation:

1. On December 29, 1972, the U.S. Department of Agriculture announced by press release that it would no longer make loans under authority of the Rural Electrification Act but rather would attempt to administer a rural electrification program under the Rural Development Act. For various reasons fully discussed at the time, many members of Congress and many other persons throughout the country—notably directors and managers of rural electric systems—considered the announced decision a serious mistake, without statutory authority, and they were unwilling to accept it.

2. On February 21, 1973, the Senate passed S. 394, which in effect sought to restore the program under the Rural Electrification Act. The House, however, took a different approach, seeking to develop a program which would more fully meet the capital needs of the rural electric systems and on which the Congress and the Administration could agree.

3. On April 4, 1973, the House passed H.R. 5683, which included provisions for a revolving fund from which REA would make loans at a standard rate of 5% or a special rate of 2% and for REA guarantees of private loans. It provided that an electric borrower would be eligible for the special rate if it met either of the following conditions: (1) an average consumer density of two or fewer per mile, or (2) an average gross revenue per mile which is at least \$450 below the average gross revenue per mile of REA-financed electric systems. It also conferred upon the REA Administrator discretionary authority to make loans at the special rate.

The electric systems then eligible for the special rate, as measured by the REA data then available, totaled 181 with 167 of them qualifying under the low density condition and 14 additional under the low revenue condition. Some, of course, qualified under both criteria.

4. On May 9 and 10, both Houses agreed to the conference report, after the conferees eliminated certain mandatory language to which the Administration objected, and the Administration agreed to lend specified amounts of capital from the revolving fund. The bill went to the White House as S. 394.

5. On May 11, the President signed the bill, and it was enacted as Public Law 93-32.

6. By July 1, the start of the 1974 fiscal year, REA had later data than had been available during consideration of the new legislation with the result that additional systems became eligible for the special rate. The total increased from 181 to 198. The number qualifying under the low revenue criterion only rose from 14 to 36.

The reason for this increase in systems qualifying was that some systems had sharply increased their rates and their revenues, thereby increasing the national average revenue per mile, while a greater number of systems had operated with significantly smaller increases in revenue. So there were more systems whose revenues lacked at least \$450 of equalling the national average. Generally, those systems which raised their rates to cover big increases in fuel costs did not get the benefit of the special interest rate while some systems that did not have to increase rates and revenue did become eligible for the special rate.

Another increase in the low-revenue group took place the next year. The total of eligible went from 198 up to 235 with the low-revenue-only category going from 36 up to 78. In the present fiscal year the eligibles total 301 (up from 235) and the number eligible because of low revenue only is up from 78 to 148.

The NRECA Board of Directors discussed this situation very carefully at its 1975 summer meeting and decided to ask the members to pass judgment as to whether the organization should recommend an amendment to the statute. The Board set up a committee to study possible alternatives, to discuss the matter with the members at the regularly scheduled regional meetings in the fall, and to ask the members to make their decision at the Annual Meeting in February this year.

The organization followed that procedure exactly. The members engaged in full and free discussion against the background of experience with the new legislation and a difficult economic situation.

Throughout the period under discussion, rural electric systems throughout the country have felt the impact of increased prices of fuel and of inflation

generally. This has resulted in rate increases of an unprecedented number and magnitude in the last year and a half and the prospect that many more will have to raise rates in the future. Because of this, it is extremely difficult to justify any action which would add additional impetus to the upward spiral of retail rates. These facts make very difficult a change in the loan criteria such as we are recommending and, of course, we make our recommendation on the basis of other and more compelling considerations. In that desperate period following the termination of the REA loan program on December 29, 1972, the Congress and we examined many courses of action and the many facts which had to be considered in designing the new REA loan program for the future. Among these was the fact that we believed it unlikely that the Administration or the Congress would, over an extended period of time, make available all of the loan funds required at an interest rate of 2%. In fact, as we then assessed the situation, it was our mutual conclusion that the 2% interest rate should continue to be available only to those rural electric systems most critically in need of this kind of special assistance. The Congress and we further concluded that, while no criteria could indefinitely and perfectly select from among all REA borrowers with absolute precision, those most in need of the special 2% interest rate, we would rely upon either a density test or a revenue test to determine eligibility for this special rate. We recognized, in other words, that only a few would be eligible for the special 2% rate, and it was our belief and I think that of the Congress as well that these would be the REA borrowers most in need of the lowest interest rate available.

With that background, it is appropriate to point out that while the density criterion has been doing an acceptably selective job, the gross revenue criterion has fallen short of expectations.

The criterion of two or fewer consumers per mile is clearly understood by all concerned, it is not subject to manipulation, and it identifies a high degree of risk from storm damage and other hazards in the utility operation.

Better than the low-revenue criterion, as a measure of need, would be a ratio between revenue and investment in the system. Our members recommend calculating the ratio as follows: Add the investment in distribution facilities and the investment in general plant, and that's the investment side of the ratio. To get the revenue side, subtract the cost of power from the operating revenue. Then divide the investment by the revenue. If the result is a figure higher than 9.0, REA would lend to that system at the special rate.

To avert any possible misunderstanding about this calculation, let me point out in passing that REA uses a different plant-revenue ratio in determining the proportions of the mix between REA standard rate loans and supplementary private loans in the present financing patterns. That is why it is important to describe the PRR calculation as the proposed legislation does.

Applying the new measure or criterion would result in qualifying 42 systems on the basis of 1974 data, the latest available. Adding these 42 to the 153 systems currently eligible by reason of low density, the total eligible would be 195. This figure should not change much from year to year in view of the fact that both PRR and consumer density are relatively stable.

In adopting the resolution that states the organization's position on these matters, the members voted unanimously and want me to report this fact to the Congress.

In a separate resolution our members recommended the other amendment you are considering—transfer to the Rural Electrification and Telephone Revolving Fund of the available loan funds which had been approved by Congress and which remained unobligated on December 29, 1972, when REA stopped making direct loans under the Rural Electrification Act. The amount of money, as reported by the Department of Agriculture, is \$455,634,525 of which \$366,466,000 had been intended for electrification loans and \$89,168,525 for telephone program loans. It is generally agreed, I believe, that these funds could well have been included in the revolving fund initially. If you will look at Section 301 of P.L. 93-32, you will see that the list of assets assigned to the revolving fund is comprehensive indeed, so that the inclusion of unobligated loan funds would be compatible with the other inclusions. Also, important to note, the funds would be put to good use in the revolving fund.

As you know, the Department of Agriculture has recommended the transfer to "facilitate the use of these previously appropriated funds while reducing the need to replenish the Revolving Fund through borrowings or sales of insured notes or Certificates of Beneficial Ownership in the fund."

This matter appears to be technical and noncontroversial and therefore subject to routine handling.

NRECA recommends your approval of this and the other technical amendments contained in H.R. 12206 and H.R. 12207.

NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION,  
Washington, D.C., October 6, 1976.

Hon. GEORGE MCGOVERN,  
*Chairman, Subcommittee on Agricultural Credit and Rural Electrification, Dirksen Office Building, Washington, D.C.*

DEAR SENATOR MCGOVERN: In our statement submitted for inclusion in the record of hearings on H.R. 12207, we stated that the subject legislation was supported unanimously by the NRECA membership. Our assertion of membership unanimity in this matter was based on the fact that when on February 5, 1976, the question of adopting a resolution evidencing such support was voted on by the delegates to the 1976 Annual Meeting of NRECA members, no negative votes were heard when President Dolinger called for the ayes and nays.

We were at that time admittedly surprised that some of the delegates representing our members in the Missouri Basin States did not cast negative votes. The General Manager of one such member, Mr. Loren Zingmark, General Manager of East River Electric Power Cooperative, Madison, South Dakota, has recently by letter dated October 1, 1976, a copy of which is enclosed herewith, advised us of his strenuous opposition to the legislation. You will recall that Mr. Zingmark personally appeared before your Subcommittee to testify in opposition to H.R. 12207 during the hearings.

There is also enclosed herewith our reply to Mr. Zingmark's letter. We respectfully request that Mr. Zingmark's letter of October 1, and our reply thereto be included in the Record of hearings on H.R. 12207, and if that Record now be closed, then we ask that this correspondence be included in the file of papers which will constitute the legislative record on the measure.

Very sincerely yours,

CHARLES A. ROBINSON, JR.,  
*Deputy General Manager.*

Enclosures.

EAST RIVER ELECTRIC POWER COOPERATIVE, INC.,  
*Madison, S. Dak., October 1, 1976.*

Mr. ROBERT PARTRIDGE,  
*General Manager, National Rural Electric Cooperative Association,  
Washington, D.C.*

DEAR BOB: I am in receipt of your testimony presented to Senator McGovern on H.R. 12207.

I note in your statement that you refer to the fact that the support of this amendment was *unanimous* by NRECA's membership.

Please be advised that East River has never supported a change in that criteria and I know many of our member cooperatives have also opposed any change in the criteria.

In my opinion, it would be well for you to correct the record so that this false statement does not get printed in the final committee document.

This past year NRECA has supported the land leasing bill, which, with the royalties included in that Act, increase the cost of coal to the Laramie River Station in Wyoming by approximately five and a half million dollars annually. H.R. 12207, which you supported untiringly, also increases the cost of interest to East River members.

What can we expect NRECA to support next year which will increase the cost of electric service to our rural people? Also, could you give me a list of other national organizations who have gone before the Congress urging them to increase the cost of operation for their members?

Sincerely,

LOREN A. ZINGMARK,  
*General Manager.*

NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION,  
Washington, D.C., October 6, 1976.

Mr. LOREN A. ZINGMARK,  
General Manager, East River Electric Power Cooperative, Inc.,  
Madison, S. Dak.

DEAR LOREN: As you know, Bob Partridge is attending the Region IX and X meetings this week. However, immediately upon receipt of your letter of October 1, I reached Bob by telephone, and, pursuant to my conversation with him, have written a letter to Senator McGovern in compliance with your request with copies to all members of the Senate Agriculture & Forestry Committee. A copy of my letter to Senator McGovern is attached for your information.

NRECA's statement indicating unanimity of membership support for H.R. 12207 is based on the fact that during the business session of the 1976 Annual Meeting in Anaheim, none of the delegates present and voting voted in the negative on the motion to approve Resolution #D-13 which voiced support for the substance of H.R. 12207. This, it seemed to us, indicated unanimous support for the Resolution, although in all fairness I must admit that Bob Partridge and I expressed to each other surprise that the voting delegate representing East River, and delegates representing other systems which held views parallel to those of East River, did not vote in the negative at the time. In any event, you may rest assured that your position has been called to the attention of Senator McGovern and other members of the Senate Committee on Agriculture and Forestry.

The Federal Coal Leasing Amendments Act of 1976 which NRECA supported does, unfortunately, include an increase in royalties payable by the users of coal mined pursuant to the Act. Obviously, we all would have liked the bill better without that increase. Let me most respectfully point out, however, that the bill also contains a preference on the availability of Federal coal leases to electric cooperatives and publicly owned utility systems, and requires "due diligence" in the production of coal from lands leased pursuant to the statute. Some lawyers believe that the "due diligence" provisions of the new statute apply to existing leases, and indeed, Ken Holum, General Manager of Western Fuels Association, took that position in a meeting in which I participated yesterday afternoon. Ken said that he felt that the bill would result in production of very substantial additional quantities of coal from existing leases, and it seems to me that if this be true, then it is entirely possible that the Act may result in a downward pressure on coal prices which to some extent, at least, would offset the additional royalty fees. Moreover, a portion of the royalty payments will go to the states impacted by mining so that the rural people in at least some areas will be spared additional local taxation. Except for the increased royalty provision, the NRECA membership has for many years strongly advocated this kind of legislation.

You state that the additional royalties included in the Act will increase the cost of coal to the Laramie River Station in Wyoming by approximately \$5½ million annually. This is certainly a great deal of money, but I also think that the preference provisions of the same legislation will place rural electric systems which do not now have any assured coal source whatever in an infinitely better position to purchase coal in the future. Also, I most respectfully point out that the \$5½ million figure is apparently based on the installation at Laramie River of 1500 MW of capacity which if operated 7500 hours per year would generate 11.25 billion kwh annually. Therefore, the \$5½ million increase imposed by the leasing bill, although very significant, will amount to less than ½ mill per kwh at the busbar on a total busbar power cost which has been estimated at something on the order of 2¢ per kwh.

Loren, you must agree with me that no one in the entire Rural Electrification Program has worked harder for a longer period of time to protect the availability of low interest rate loans to rural electric cooperatives than has Bob Partridge. Bob placed his entire personal reputation and career on the line in standing fast (and almost alone) to make certain that the availability of 2% funds was protected in Public Law 93-32. And, in my judgment, nobody else stood stronger for continuation of 2% loan funds than did Bob Partridge during consideration of the various points of view which lead to the formulation and enactment of H.R. 12207. Therefore, it seems to me that Bob's judgment is entitled to very serious consideration when he concludes as he did that failure to enact H.R. 12207 would have quite likely lead to loss of the entire insured loan program in the near term future.

In response to the last paragraph of your letter, I think you can expect that next year, as in all prior years, NRECA will support those measures which are advocated by its membership. Throughout my 26 years of association with the Rural Electrification Program, I have participated in the workings of many statewide and national organizations, and I can honestly say to you that I know of no staff which takes the pains that the NRECA staff does to make certain that the policies of its membership are followed. Frankly, I do not know of any other national organization which may have supported legislation to raise the interest rates on loans available to its members, but neither do I know of any membership which has by such a big majority directed its staff to do just that.

Please be assured that we respect your views on this matter. That is why I changed my schedule to be present when you testified before Senator McGovern's subcommittee. We are, however, bound to follow the majority position of our members.

Very sincerely yours,

CHARLES A. ROBINSON, Jr.,  
*Deputy General Manager.*

NATIONAL R.E.A. TELEPHONE ASSOCIATION,  
*Washington, D.C., September 16, 1976.*

Re H.R. 12207 (Rural Electrification Administration Technical Amendments Act of 1976).

HON. GEORGE MCGOVERN,  
*Chairman, Subcommittee on Agricultural Credit and Rural Electrification, Room 2313, Senate Office Building, Washington, D.C.*

DEAR SENATOR MCGOVERN: Our association has given much study and thought over the past two years toward solving the extremely serious criteria problem in the REA Telephone program which has been building up each year since 1973. At the present time, 422 or 48% of all the REA telephone borrowers qualify for the "special rate" two percent financing. This unintended result destroys the ability to pay concept developed for this program over the years.

We have conferred with our borrowers as well as industry associations (both electric and telephone), the Administrator of REA and his staff, all of whom agree that this situation should not continue. The position of our association can be stated very simply: The REA insured loan program (2% and 5%) must be preserved with integrity. Unless criteria which determine qualification for the "special rate" of interest are corrected at an early date, borrowers who require the "special rate" loans will have a long wait due to the limited amount available. This is not what Congress intended. The change in criteria in H.R. 12207 will remedy this inequity so that the number who qualify for the "special rate" will be reduced from 422 to 183, approximately the same number eligible in 1973 when the REA Act was amended. We strongly urge immediate passage of H.R. 12207.

Sincerely yours,

A. HAROLD PETERSON,  
*Executive Director and Counsel.*

H.R. 12207

FACT SHEET ON REA TELEPHONE PROGRAM TECHNICAL AMENDMENTS

After the Rural Electrification Act was amended in 1973 (Public Law 93-32) 191 telephone companies qualified for the "special rate" of interest (2% financing) by reason of either the density criteria of two or fewer per mile or the gross revenue criteria of gross revenue of less than \$300 per mile below the national average. Since that date, the number has increased markedly. The following table indicates the increase:

	Number	Percent
Fiscal year:		
1973.....	191	23.4
1974.....	228	27.7
1975.....	294	35.1
1976.....	350	41.2
1977.....	422	48.7

The increase shown above is due principally to a small percentage of systems located in heavy growth areas whose revenues have caused an escalation of the national average of gross revenue. This has resulted in many more companies qualifying for two percent financing under the "revenue" criteria than was intended. The REA telephone legislation developed over the years was designed to provide adequate financing to attain the objectives of the program on a step-by-step, ability-to-pay basis, ranging from two percent, five percent, Rural Telephone Bank financing (now 7% interest) or guaranteed loans at the market rate of interest.

To remedy the unintended result of 422 companies qualifying for two percent financing under the present criteria, the proposed bill provides that the density criteria be changed from two to three per mile and that the revenue criteria be eliminated. This would reduce the number of companies who would be eligible for the two percent financing from 422 to 183, a reduction of 57%. Of the total number of 937 telephone borrowers, only 20% would be qualified for the "special rate" (two percent) under the proposed bill.

While admittedly there is no perfect criteria, a density only criteria in the case of the telephone program would be more stable. Under a density only criteria, the number of companies qualifying for two percent financing would, in all probability, be less as the years go by.

This bill also includes a provision to transfer the unobligated balance of the appropriations for fiscal year 1973 to the Rural Electrification and Telephone Revolving Fund. The transfer of this balance of \$455.6 million to the Revolving Fund would facilitate the use of these previously appropriated funds.

#### STATEMENT OF THE NATIONAL TELEPHONE COOPERATIVE ASSOCIATION

##### INTRODUCTION

The National Telephone Cooperative Association is the national association representing the 242 REA-financed rural telephone cooperatives providing non-profit telephone service to over 800,000 subscribers in 35 states. NTCA also represents 43 locally-owned and operated commercial telephone systems financed through the rural telephone loan program administered by the Rural Electrification Administration.

Since shortly after the passage of PL 93-32, three years ago, the NTCA membership has been actively considering the desirability of further amending the REA Act of 1936. Recognizing a need for change from total dependence on low-interest financing, NTCA endorsed a telephone bank concept in 1965 and worked for seven years in support of the Rural Telephone Bank legislation finally enacted in 1971. During this period our positions have consistently been in support of changes in the rural telephone program which enhanced administration of the program and benefited the rural people who are its ultimate beneficiaries.

After consideration at several legislative committee meetings and at our last two annual meetings, the NTCA membership adopted a resolution in February of this year supporting certain amendments to the REA Act. That resolution follows:

##### PROPOSED REA AMENDMENTS

Whereas the Administration has proposed additional amendments to the REA Act of 1936, as amended; and

Whereas NTCA recognized that certain language in the 1973 amendments to the Act has created administrative difficulties in the operation of the several loan programs; and

Whereas NTCA members cannot support further amendment to the REA Act unless certain alterations which we view as positive changes for the program are included in any draft legislation: Therefore be it

*Resolved*, That NTCA support legislation to amend the REA Act telephone loan programs in the following particulars:

1. To remove the revenue-per-mile of line criterion from the "special rate" 2 percent insured loan program and alter the subscriber density factor to 3.0 or less per mile of line; thus leaving approximately 20 percent of all borrowers continuing to be eligible for 2 percent financing; retaining the Administrator's discretionary powers to make special rate 2 percent insured loans as now provided in Section 305(2) (a) (b) (c) of the Act.

2. To maintain the requirement in Section 408 regarding eligibility for Rural Telephone Bank loans that a bank borrower maintain a 150 percent TIER ratio for all existing and proposed loans.

3. To remove the prohibition of REA loans for CATV purposes in REA borrower served areas, so long as a telephone borrower also furnishes voice communications service in the area.

4. To require the utilization of the remaining \$89 million in fiscal year 73 funds impounded by the Nixon Administration; either through direct loan to borrowers qualifying for 2 percent financing or through addition of these funds to the REA Electric Telephone Revolving Fund.

NTCA presented testimony supporting this resolution to the House Agriculture Subcommittee on Conservation and Credit this spring prior to passage of HR 12207. NTCA believes that broader legislation containing the changes endorsed by the membership would be beneficial to the rural telephone borrowers. We accepted the position of Subcommittee Chairman Bergland (D-Minn) and the other borrower organizations that a narrow bill, making only technical changes to the REA Act best met the considerations of desirability to the borrowers, the Administration and supporters of the REA programs in Congress and supported HR 12207.

In the very short time remaining before the anticipated adjournment of the 94th Congress, it also appears that a technical amendments bill is the only achievable REA program legislation which can be enacted. We understand that consideration is being given to adding an amendment to HR 12207 to establish a "grandfather" clause, a date on which the change in interest criteria will be established. NTCA supports such an amendment as an equitable way in which to make the transition from the criteria established in the 1973 amendments to the new criteria contained in HR 12207. While considerations of time appear to make further amendments of the REA Act of 1936, as amended, unfeasible in 1976, NTCA members continue to believe that further changes to the Act may be desirable. NTCA members continue to strongly support the Rural Telephone Bank and believe that the eligibility criteria established by Congress should not be altered as was proposed by the Administration during the past year. NTCA supports the concept that borrowers should progress to higher interest rate programs as their fiscal maturity allows. For the fiscal year 1977, for example, of \$650 million authorized for the REA loan program, less than 20 percent will be made available at the historic interest rate of 2 percent, NTCA opposes the elimination of the TIER criteria for Rural Telephone Bank loans.

NTCA members are very interested in gaining the elimination of the present CATV restrictions in the REA Act. The 1976 House Hearings on HR 12207 developed some indications from members of the Subcommittee of interest in further consideration of amendment to the REA Act in this area. Resolutions passed by NTCA members at their 1976 regional meetings indicate that the 1977 annual meeting in February will officially commit the association to seeking further amendment of the REA Act to eliminate this restriction during the 95th Congress. We believe that technological changes in the telephone industry will make it desirable that the telephone systems financed by REA provide CATV in their service areas, where television service is inadequate, through common use of coaxial cable. We believe there is a need for broader availability of cable television. In many rural areas only a single TV station is presently offering service; the consequences are often a limitation in programming and poor reception in outlying districts. REA-financed rural telephone systems are the logical entities to fill this need. The addition of CATV capability in appropriate areas would be beneficial; first, through the provision of the CATV service where it is not now available, and, second, through improved telecommunications service in rural America. On the telephone side of the REA program there has been serious concern for the past several years over increasing costs. The investment per station required to provide modern, efficient telephone service has been increasing dramatically. Cable has probably been the single component most affecting this increase. Consequently, considerable effort has been made to find alternatives to the traditional practice of stringing or burying cable for every new installation. Subscriber carrier has enabled many systems to service new customers without incurring dramatic cost increases.

Through utilization of coaxial cable it would be possible for a single entity to provide both telephone and CATV service. In REA borrower-served areas, the telephone system is the logical choice. This, it is presently anticipated, would be possible at a cost addition of only 10%-15% over present levels. Significant

additional funding would not be necessary for REA-financed telephone borrowers to provide total communications. NTCA does not believe this would provide unfair competition to existing television stations. "Economics" will determine the choice. Where present television service is adequate, it would not be desirable for a telephone system, even with the REA financing available, to provide CATV because there would be no market for it. CATV would be most desirable, however, in the many rural areas where television service is presently not available or inadequate.

In addition to CATV and telephone service, of course, coaxial cable can be utilized to provide a myriad of other services including remote meter reading, fire detection systems, freezer alarms and many more. None of these will stand on their own economically. Like CATV, they will either have to be provided in conjunction with telephone service or remain unavailable in rural areas.

To date, provision of cable television service by commercial operators has not been economically feasible in rural areas. The president of the CATV association admitted as much before the Agriculture Committee years ago and the subsequent record has borne him out. With one entity providing both telephone and CATV, it will be possible to bring this service to rural America at an affordable cost. This arrangement will also assist in holding down increases in cost for provision of other communication service.

The Federal Communications Commission has indicated an awareness that their blanket prohibition of telephone company provision of CATV has been counter-productive in rural areas. It has not resulted in increased competition for provision of the service, but rather in unavailability of CATV. For that reason, on a case by case basis, the FCC has granted quite a number of waivers to rural systems to provide CATV. With some encouragement from the Commission, NTCA is now working toward a rule-making to provide a general exception from the FCC regulation for all telephone systems serving rural areas as defined by the REA Act.

In a recent staff report the House Commerce Communication Subcommittee also reached the conclusion that the policy of the FCC has kept CATV out of rural America. It recommended that a government lending program, similar to REA, be instituted to make financing available for this purpose.

To take the "worst case analysis" approach, should some entrepreneur find it economically feasible to provide CATV in rural areas, he would also be able to provide telephone service more efficiently than the existing telephone system, raising the spectre of the government's investment in rural telephone service, currently over \$2.5 billion, being threatened. Certainly there are obvious inefficiencies in any arrangement which contemplates a duplication of distribution facilities; one cable for telephone and another for CATV and related services, all over rural America.

#### CONCLUSION

The Senate Agriculture Subcommittee on Rural Electrification and Forestry has consistently supported a strong rural telephone program. NTCA particularly appreciates the consistent support of Senator McGovern through the years of legislative effort which culminated in passage of the Rural Telephone Bank Act in 1971 and on the difficult day in the spring of 1973 when he struggled to re-establish a workable rural telephone loan program following the Nixon Administration impoundments. In each of those instances, the major problem was to balance the needs and desires of the borrowers with considerations of what was politically acceptable to the Administration and to the Congress. NTCA well recalls that it was not possible to gain all of the considerations in which we were interested in 1971 and that the Act, as presently written, reflects political necessities at that time. We also note, however, that the rural telephone program, as reestablished by PL 93-32 passed by Congress that year has been not only "workable" but highly successful. For those same reasons, NTCA now supports HR 12207 and the addition of a further amendment to establish a date upon which new loan applications will be processed under the new criteria. As the committee understands, it is difficult for an organization such as NTCA which depends on the voluntary support of its members, to endorse legislation which appears to adversely affect the interest of some members and NTCA members may well direct their association to seek further amendments of the REA Act in 1977. However, at this time, NTCA will support the technical amendments bill in the form which the committee, in its best judgment, determines.

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CONCLUSION

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