Opening Statement of U.S. Sen. Chuck Grassley, of Iowa
Chairman, Senate Committee on Finance
Field Hearing in Dallas Center, Iowa
"Rural Economy, Renewable Energy & the Role of Our Cooperatives"
Tuesday, August 26, 2003

I am excited to have this hearing on the role of our cooperatives in our pursuit of renewable energy and their ongoing support of our rural economy. Thanks to everyone here today and all of our witnesses for an opportunity to discuss these many important issues. As you know the Senate just passed an Energy Bill which will be going to Conference as soon as we return next week. There are many provisions in that bill which will help our cooperatives succeed in the diversification of our national energy supply.

For years, I have worked to decrease our reliance on foreign sources of energy and accelerate and diversify domestic energy production. I believe public policy ought to promote renewable domestic production that uses renewable energy and fosters economic development.

Specifically, the development of alternative energy sources should alleviate domestic energy shortages and insulate the United States from the Middle East dominated oil supply. In addition, the development of renewable energy resources conserves existing natural resources and protects the environment. Finally, alternative energy development provides economic benefits to farmers, ranchers and forest land owners, such as those here in Iowa who have launched efforts to diversify the state's economy and to find creative ways to extract a greater return from abundant natural resources.

Section 45 of the Internal Revenue Code currently provides a production tax credit for electricity produced from renewable sources including wind, closed-loop biomass, and poultry waste. The Energy Tax Incentives Act extends the section 45 credit and expands the sources of electricity to include biomass, including agricultural waste nutrients, geothermal wells and solar energy.

I have been a constant advocate of alternative energy sources. Since the inception almost ten years ago of the wind energy tax credit, nearly 4,300 megawatts of generating capacity have been installed across the country. Forty percent of that capacity was added during 2001, a year in which wind energy installations increased 3000% over the prior year--the most new wind capacity ever installed in the United States. Wind farms installed last year produce enough electricity to power almost half a million average American households per year, demonstrating the significant capacity of wind. In addition, wind represents an affordable and inexhaustible source of domestically produced energy. Extending the wind energy tax credit until 2007 would support the tremendous continued development of this clean, renewable energy source.

The Senate passed Energy Bill supports a maturing green energy source. Experts have established wind energy's valuable contributions to maintaining cleaner air and a cleaner environment. Every 10,000 megawatts of wind energy produced in the United

States can reduce carbon monoxide emissions by 33 million metric tons by replacing the combustion of fossil fuels.

In addition, this proposal helps to empower our rural communities to reap continued economic benefits. The installation of wind turbines has a stimulative economic effect because it requires significant capital investment which results in the creation of jobs and the injection of capital into many rural economic areas. The wind industry now estimates that nearly $2 billion in employment and economic development will be added this year alone in the presence of the prompt extension of the credit through January 1, 2007.

In addition, for each wind turbine, a farmer or rancher can receive more than $2,000 per year for 20 years in direct lease payments. Iowa's major wind farms currently pay more than $640,000 per year to land owners.

As many of my colleagues know, I authored the section 45 tax credit included in the Energy Policy Act of 1992 which provided a tax credit for the production of energy from closed loop biomass.

This term refers to biomass produced specifically for energy production. An example is switchgrass grown here in of Iowa. To sustain many of the benefits derived from the production of biomass energy, we extend the existing credit and expand the provision to additional new sources of biomass energy production.

Environmentally-friendly biomass energy production is a proven, effective technology that generates numerous waste management public benefits across the country.

Moreover, the Energy Bill expands the biomass definition to cover open loop biomass. Open loop biomass, includes organic, non-hazardous materials such as saw dust, tree trimmings, agricultural byproducts and untreated construction debris.

The development of a local industry to convert biomass to electricity has the potential to produce enormous economic benefits and electricity security for rural America.

In addition, studies show that biomass crops could produce between $2 and $5 billion in additional farm income for American farmers. As an example, over 450 tons of turkey and chicken litter are under contract to be sold for an electricity plant using poultry litter being built in Minnesota. This is a win - win, not only do the farmers not have to pay to dispose of this stuff, they get paid to sell the litter.

Finally, marginal farmland incapable of sustaining traditional yearly production is often capable of generating native grasses and organic materials that are ideal for biomass energy production. Turning tree trimmings and native grasses into energy provides an economic gain and serves an important public interest.

I am very proud of a long history of supporting new alternative energy concepts in the production of electricity. The Senate passed Energy Bill continues and expands that commitment. As discussed previously, section 45 provides a production tax credit for electricity produced from renewable sources including wind, closed-loop biomass, and poultry waste.

The Energy Bill modifies section 45 to include electricity generated from swine and bovine waste nutrient. This is a great example of how the agriculture and energy industries can come together to develop an environmentally-friendly renewable resource.

By using animal waste as an energy source, an Iowa livestock producer can reduce or eliminate monthly energy purchases from electric and gas suppliers and provide excess energy for distribution to other members of the community. Or you could join together in a cooperative effort to help promote distributive generation and help safeguard the American electricity grid. By way of example, in January 2001, an 850-cow dairy operation near Princeton, Minnesota generated enough electricity to run its entire dairy farm and to sell $4,400 worth of excess power to the local electric provider--enough to power 78 homes during the coldest month of the year. In addition, a 5,000-hog farm, has potential to generate approximately 650,000 kilowatts of electricity--an amount equal to the consumption of 76 average American homes.

The swine and bovine proposal is truly Green electricity, as it also furthers environmental objectives. Specifically, anaerobic digestion of manure improves air quality because it eliminates as much as 90 percent of the odor from feedlots and improves soil and water quality by dramatically reducing problems with waste run-off. Maximizing farm resources in such a manner may prove essential to remain competitive in today's livestock market. In addition, the technology used to create the electricity results in the production of a fertilizer product that is of a higher quality than unprocessed animal waste. Now that's "value added".

The Energy Tax Incentives Act is important to agriculture, rural economy and small business, it is also important for domestic supply and energy independence.

Rural America can play an important part in energy independence and domestic supply. In addition to the production of electricity, the Senate Energy Bill includes additional tax incentives for the production of alternative fuels from renewable resources.

A small producers credit for the production of ethanol has been included to clarify that farmers cooperatives producing ethanol will be able to pass that tax incentive through to their farmer members. And we have a new incentive for the production of biodiesel. Biodiesel is a natural substitute for diesel fuel and can be made from almost all vegetable oils and animal fats. Modern science is allowing us to slowly substitute natural renewable agricultural sources for traditional petroleum. It gives us choices for the future and it can relieve the strain on the domestic oil production to fulfill those important needs that agricultural products cannot serve.

Let me point out that the Finance Committee amendment contained provisions that enhance the tax incentives for ethanol production. Ethanol is a clean burning fuel that will continue to be a key element in our transportation fuels policy. We reshaped the ethanol excise tax exemption. I introduced that along with Ranking Member Max Baucus from Montana as Senate Bill S. 1548, the same day the Senate passed the Energy Bill by 84 votes. I am proud to say we were joined by 22 other Senators as co-sponsors of the ethanol excise tax reform. Both of these bills reflect the bipartisan support of the Senate.

Now, ethanol-blended fuels will make the same contribution to the highway trust fund as regular gasoline while also retaining an important incentive to promote the use of domestic, renewable fuels.

It makes common sense for ethanol taxes to contribute just as much to building highways as traditional gasoline taxes. It isn't logical for a smaller portion of ethanol taxes to contribute to highways than the taxes from traditional gasoline. All types of vehicle fuel taxes should contribute equally to highway construction and maintenance.

Our highway needs are great. Our dependence on imported fuel should decrease. This restructuring of ethanol excise taxes contributes to both of those priorities. At the same time, it preserves all incentives to use the clean-burning, renewable, domestically produced ethanol, the fuel of the future.

Renewable fuels like ethanol and biodiesel will improve air quality, strengthen national security, reduce the trade deficit, decrease dependence on the Middle East for oil, and expand markets for agricultural products.

I have only taken a few minutes to review a portion of the Senate Energy Bill. The electricity tax credits and the alternative fuel incentives in the bill are good for agriculture, good for the environment, good for energy consumers and good for national security interests. But, in addition, these Energy tax incentives are equally important to our Rural economy, our farmer cooperatives and our Rural Electric Cooperatives and equally important to a sound energy policy.

Before I finish I'd like to comment on a tax incentive proposal I intend to raise in conference to the Senate Energy Bill.

The time is right to deal with the dividend allocation rules for cooperatives. This proposal would allow the payments of dividends on the stock of cooperatives without reducing patronage dividends. This measure is very important for energy production and agriculture.

This matter has passed both the Senate and the House, and I hope it will be accepted in the Energy Conference. If not, as Chairman of the Senate Finance

Committee, I plan to pursue this bipartisan proposal along with Senator Baucus on any other tax related bill handled by the Senate Finance Committee.

Now, before introducing our witnesses for today's Hearing, I will be reading Senator Max Baucus's opening statement. He is in his home state of Montana and was unable to join us today, but he did send us his Tax Counsel, Matt Jones. Thank you Matt, for helping staff this Hearing. I know cooperatives are just as important to Max as they are to me.

Our first witness will be the Honorable Thomas Dorr, our Under Secretary for Rural Development for the United States Department of Agriculture. But probably most everyone here knows him as Tom from Marcus, Iowa. I have known Tom for many years and I am very happy he was able to join us today, but rumor has it he has a brand new grandchild and he really wanted to spend the weekend playing "grandpa" . I have several of those myself Tom, I really cannot blame you - but thank you for being here with the patrons and customers of the Iowa cooperative community. I know they appreciate your leadership.

Our second panel will be as follows:

Professor Tom Gue — Tom is a professor of Law at the University of South Dakota, but most importantly, he is also the reporter for the National Conference of Commissioners on Uniform State Laws. He will be reporting on their new Uniform law project on Cooperatives.

Next is Regi Goodale — Regi graduated from the University of Northern Iowa and currently serves as the Director of Regulatory Affairs for the Iowa Association of Electric Cooperatives.

Then we have John Campbell — John is the Vice President of Governmental Relations and Industrial Products for AG Processing, Inc. Prior to joining AGP, John served as Deputy Under Secretary for International Affairs and commodity Programs for the U.S. Department of Agriculture. He will be discussing international exports and cooperatives.

Next is Josh Blaisdell of CHS Inc. formerly known as Cenex Harvest States. Josh is the Director of Tax for CHS, and will be discussing the refiner cooperative legislation and the Dividend Allocation rule.

And our last witness will be Bob Dinneen, the President and CEO of the Renewable Fuels Association (RFA) the national trade association for the U.S. ethanol industry. Bob and his organization have been invaluable in helping coordinate all of the many changes needed to simplify the ethanol excise tax proposal. I know after the Hearing he will be happy to talk to any of you about all of the new exciting changes.