

RD AN No. 4643 (4280-B)  
April 18, 2012

TO: State Directors, Rural Development  
ATTN: Business Programs Directors and Energy Coordinators  
SUBJECT: Rural Energy for America Program  
Scoring Clarification

**PURPOSE/INTENDED OUTCOME:**

The purpose of this Administrative Notice (AN) is to provide clarification on the scoring criteria for applications under the Rural Energy for America Program (REAP), Renewable Energy Systems and Energy Efficiency Improvements Program. The scoring guidelines are currently referenced in RD Instruction 4280-B, section 4280.117(c) and 4280.129(c). This guidance does not apply to the Feasibility Study or Energy Audit and Renewable Energy Development Assistance grants.

**COMPARISION WITH PREVIOUS AN:**

This AN replaces RD AN No. 4505 (4280-B), dated April 20, 2010, which expired on May 31, 2011.

**IMPLEMENTATION RESPONSIBILITY:**

Rural Development (Agency) has identified scoring criteria which require clarification. The following guidance will be used when scoring all Renewable Energy Systems and Energy Efficiency Improvements applications under the program:

1. Criterion (1): **“Quantity of Energy Replaced, Produced, or Saved and Flexible Fuel Pumps”** - the maximum score allowed is 15 points.

EXPIRATION DATE:  
April 30, 2013

FILING INSTRUCTIONS:  
Preceding RD Instruction 4280-B

RD Instruction 4280.117(c)(1) outlines the requirements for each of the categories.

For a project to qualify as an energy replacement it must provide documentation on prior energy use. For a project involving new construction and a renewable energy system being installed to serve the new facility, the project may be classified as energy replacement only if the applicant can document previous energy use from a facility of approximately the same size. Approximately the same size is further clarified to be 10 percent larger or smaller than the facility it is replacing. For the purpose of this paragraph, the term **project** is used to describe the specific renewable energy system or energy efficiency improvement being funded.

There are instances where a project may not qualify as energy replacement or energy generation and would not receive any points in Criterion (1), some examples include:

- a) Geothermal system in a new building where the new facility is more than 10 percent larger than the facility it is replacing,
  - b) Geothermal system in a new building where there is no documentation to support prior energy use of the new facility,
  - c) Solar thermal project to support a new process or system where there is no history of energy use, and
  - d) Off-grid systems where there is no independently verifiable energy use.
2. Criterion (2): “**Environmental Benefits**” - the maximum score allowed is 10 points.

Environmental documentation needs to contain the following:

- a) An appropriate authority must document how the project meets established environmental goals or objectives of Federal, State, or local programs.
  - b) The documentation provided must reference the applicant by name, the REAP program, and specify the project identified in the application.
3. Criterion (3): “**Commercial Availability**” - the maximum score allowed is 10 points.

Applicants must provide evidence of “commercial availability” including that professional service providers, trades, large construction equipment providers, and labor are readily available domestically and familiar with installation procedures and practices. Additionally spare parts and service must be readily available in the United States in order to properly maintain and operate the system. All warranties must be valid in the United States.

Five points will be awarded for systems that are currently commercially available and replicable but do not have a 5-year warranty. Applicants can be awarded an additional five points under this criterion when they provide a copy of the warranty that will be awarded or a statement from the supplier/contractor detailing the warranty information. Applicants may receive the full 10 points for an optional extended warranty, if the application states they will purchase the extended warranty provided that with the extended warranty the total warranty exceeds 5 years. If points are awarded, the letter of conditions will require the grantee to provide proof of the extended warranty for the prerequisite period prior to signing the grant agreement. An Agency approved insurance backed warranty for a project is also acceptable.

The Agency requires that a warranty must be 5 years or more on all major components being installed to receive the additional five points.

For purposes of scoring this section components are not considered major if they can be replaced in a project at minimal cost, relative to the project size.

Example #1: Solar photovoltaic (PV) project - the solar modules and inverters are considered major components. If the applicant demonstrates the solar PV system is commercially available, and provides documentation that the solar modules and the inverter both have at least a 5-year warranty, the application would qualify for 10 points.

Example #2: Energy efficiency refrigeration project - a restaurant is installing a new, walk-in refrigerator. The major components in the project are considered the walls and the compressor. If the applicant demonstrates that the refrigerator is commercially available and provides documentation the walls have at least a 5-year warranty but the compressor has a 2-year warranty, the project would only receive five points. In this example all major components do not have the minimum 5-year warranty.

Example #3: Energy efficiency grain drying project - Manufacturer offers a standard 1 year comprehensive warranty for parts and labor, but excludes motors. For an additional \$1,000 buyers can purchase an extended warranty that when combined with the standard warranty exceeds the required 5 year coverage. The application clearly identifies that the applicant intends to purchase the extended warranty. Typically a grain dryer will have a small motor that operates the auger and a larger motor that operates the fan. These motors can be easily replaced and typically have a cost of less than 5 percent of the total project cost. In this example warranty points would be awarded.

4. Criterion (4): **“Technical Review”** - the maximum score allowed is 35 points.

Specific to the Technical Scoring of Hybrid Projects:

The Agency considers hybrid projects to be a combination of two or more renewable energy technologies that are incorporated into a unified system to support a single project. The applicant will submit a separate technical report for each technology.

If a project consists of a hybrid technology, and the technical reviews are a State Office responsibility, the State will review the technical reports. If one or more of the technologies require National Renewable Energy Laboratory (NREL) review, NREL will review each of the technical reports. Each technical report will be evaluated and scored based on its own merit. The scores for the technologies will be consolidated using a weighted average approach based on the percentage of the cost for each system to the total eligible project cost.

Example: A hybrid project consists of both wind and solar photovoltaic components. The wind system will cost \$30,000 and the solar will cost \$10,000. The wind technical report was evaluated and assigned a score of 22 points, while the solar report was evaluated and assigned a total score of 31 points. In this scenario the final technical score would be assigned as follows:  $(22 \times 75 \text{ percent}) + (31 \times 25 \text{ percent}) = 24.25$ .

5. Criterion (5): “**Readiness**” (**Grants Only**) - the maximum score allowed is 15 points.

It is the Agency’s position that the term “Readiness” means Financial Readiness. Therefore the applicant must demonstrate the project has the necessary funds available from other sources to complete construction or implementation of the project.

- a) If financial resources come from the grantee, the grantee will submit documentation in the form of a bank statement that demonstrates availability of funds.
- b) If a lender is providing financial assistance, then a commitment letter signed by an authorized bank official is needed. The letter must be specific to the project, identify the loan amount, the rates, and terms.

A letter-of-intent, pre-qualification letter, subject to bank approval, or other underwriting requirements or contingencies are not acceptable. An acceptable condition may be based on the receipt of the REAP grant or an appraisal.

To determine the points assigned, the applicant must provide documentation from all sources other than the guaranteed loan and grant funds being requested from Rural Development. For example, a business installing a wind turbine with a total eligible project cost of \$200,000 is requesting a \$50,000 grant and \$100,000 guaranteed loan. The applicant must provide documentation for the remaining \$50,000 to get the maximum 15 points. If the applicant provides documentation for \$45,000, or 90 percent of the \$50,000 needed, 10 points would be awarded. If the applicant provides documentation for \$25,000, or 50 percent of the \$50,000 needed, five points would be awarded.

6. Criterion (6): **“Small Agricultural Producer/Very Small Rural Business”** - the maximum score allowed is 10 points.

RD Instruction 4280-B, section 4280.103, defines a small business as, “An entity is considered a small business in accordance with the Small Business Administration’s (SBA) small business size standards by the North American Industry Classification System (NAICS) found in Title 13 [of the Code of Federal Regulations] CFR part 121. A private entity, including a sole proprietorship, partnership, corporation, cooperative (including a cooperative qualified under section 501(c)(12) of the Internal Revenue Code), and an electric utility, including a Tribal or governmental electric utility, that provides service to rural consumers on a cost-of-service basis without support from public funds or subsidy from the Government authority establishing the district, provided such utilities meet SBA’s definition of small business. These entities must operate independent of direct Government control except for Tribal business entities [as identified in 4280.103]. With the exception of the entities described above, all other non-profit entities are excluded.”

The size standards by NAICS referenced above can be found in 13 CFR 121.201. When determining eligibility of a small business reviewers will average the most recent 3 years annual receipts, in accordance with 13 CFR 121.104(c).

Agricultural Producers can qualify as a small business if they can meet the SBA requirements of a small business as defined above.

An agricultural producer will score 0, 5, or 10 points as follows:

- a) An applicant that applies as an agricultural producer and reports a gross market value of agricultural products of less than \$200,000 in the preceding year, per Internal Revenue Service (IRS) form and lines indicated below, will be awarded 10 points.
- b) An applicant that applies as an agricultural producer and reports a gross market value of agricultural products of between \$200,000 and \$599,999.99 in the preceding year, per IRS form and lines as indicated below, will be awarded 5 points. An applicant that applies as an agricultural producer and reports a gross market value of agricultural products of \$600,000 or more in the preceding year will receive zero points. To determine points awarded under this criterion and to determine eligibility for an agricultural producer, use the following general guidelines:

For 2010 tax year and prior:

- IRS form 1120 – for a corporation – line 1a
- IRS form 1120S – for an “S” corporation – line 1a
- IRS form 1065 – for a partnership – line 1a

- Schedule 1040C – for a business – line 1
- Schedule 1040F – for a farming operation – lines 3 & 4

For 2011 tax year:

- IRS form 1120 – for a corporation – Line 1c
- IRS form 1120S – for an “S” corporation – line 1c
- IRS form 1065 – for a partnership –line 1c
- Schedule 1040C – for a business – Line 1d
- Schedule 1040F – for a farming operation – lines 1e + 2a + 2b

- c) An applicant that applies as a small business will score either zero or 10 points as follows:

If the small business is a very small business as defined in RD Instruction 4280-B, section 4280.103, a business with less than 15 employees as documented in their application narrative and less than \$1 million in annual receipts in the preceding year (per IRS form and lines indicated below) it will be awarded 10 points. When evaluating annual receipts relative to the Very Small Business Criterion both the rural and non-rural annual receipts should be considered. Points will be assigned for this criterion without consideration of annual receipts or employees of affiliate businesses. Businesses that exceed either the annual receipts or employee thresholds receive zero points.

Add the cost of goods sold to the income lines referenced below to determine the annual receipts:

- IRS form 1120 – for a corporation – line 11
- IRS form 1120S – for an “S” corporation – line 6
- IRS form 1065 – for a partnership – line 8
- Schedule 1040C – for a business – line 7
- Schedule 1040F–for a farming operation – 2010 tax year and prior, line 11
- Schedule 1040F–for a farming operation – 2011 tax year, line 9

Cost of goods sold can be found on the following lines:

- Form 1120 – line 2
- Form 1120S – line 2
- Form 1065 – line 2
- Schedule 1040C – line 4
- Schedule 1040F – line 2 for 2010 tax year and prior and line 1d for 2011 tax year

- d) An applicant cannot receive points both as an agricultural producer and a very small business. In their application the applicant will be required to identify if they are an agriculture producer or very small business. Note, projects for

agricultural producers that are located in nonrural areas are now eligible to apply for REAP funding as long as they apply as an agricultural producer and meet the definition of agricultural producer.

RD Instruction 4280-B, section 4280.103, defines an agricultural producer as “[a]n individual or entity directly engaged in the production of agricultural products... whereby 50 percent or greater of their gross income is derived from the operations.” This means that 50 percent of the agricultural producer’s gross income must come from production (growing or raising) of agricultural products. The purchase and resale of agricultural products would not be considered agricultural production.

For those agriculture producers supplying IRS form 1040 and Schedule F as documentation, eligibility can be established with the following formula:

For 2010 tax year and prior:

- Line 11 of Schedule F divided by
- (Line 22 IRS Form 1040) + (Line 35 of Schedule F) + (line 28 and 30 of Schedule C)

For 2011 tax year:

- Line 9 of Schedule F divided by
- (Line 22 IRS form 1040) + (Line 33 of Schedule F) + (Line 28 and 30 of Schedule C)

7. Criterion (8): “**Previous grantees and borrowers**” - If an applicant has not been awarded a grant or loan under this program within the 2 previous Federal fiscal years (FY), 5 points will be awarded.

The previous grant or loan refers only to the renewable energy system and energy efficiency improvement grant and loan portion of the program. The Agency may award points under this category to an applicant that has previously received a renewable energy feasibility study grant.

8. Criterion (9): “**Simple Payback**” - The criterion for Return on Investment has been changed to Simple Payback. The definition of Simple Payback includes the calculation methods and is defined in RD Instruction 4280-B, section 4280.103.

Below are examples of Simple Payback calculations.

- a) Energy Replacement:

A small wind project applying as an energy replacement with total project costs (TPC) of \$104,000 estimates production of 60,000 kilowatt hours (kWh) per year.

The electricity generated will be used to offset power used in the business. Applicant has provided utility bills supporting a kWh cost of \$0.112.

The calculation would be as follows:

- 60,000 kWh per year \* \$0.112 per kWh = \$6,720 per year
- \$104,000 TPC / \$6,720 = 15.5 years
- This project would be awarded 5 points

Renewable energy systems that are replacement projects which generate more energy than the applicant’s historical records show can be used, will value the excess energy at its market price and not at the replacement value, even if the applicant is projecting increase in usage.

b) Energy Efficiency:

Grocery store refrigeration improvement documents energy savings based on an energy assessment equating to annual savings of \$2,500. Total project costs \$18,000. The calculation would be as follows:

- TPC \$18,000 / \$2,500 energy savings = 7.2 year simple payback
- This project would be awarded 10 points

c) Energy Generation:

Simple payback calculations for energy generation projects will be calculated based on the information provided with the application. A wind turbine project with total project costs of \$250,000 would be calculated as follows:

Income from electrical sales	\$ 24,640 *
Expenses:	
Maintenance Contract	\$ 800
Depreciation	\$ 40,000
Interest	\$ 6,000
Net Income	\$(-22,160)

\*Application does not identify any energy incentives that can be annualized such as Production Tax Credits, Renewable Energy Credits, or Carbon Credits, etc.

Simple Payback = TPC \$250,000 / ((-\$22,160) + \$40,000 Depreciation + \$6,000 Interest)

TPC \$250,000 / \$23,840 = 10.4 years

This project would be awarded 10 points

9. Criterion (10): **“State Director and Administrator Priority Points”** State Director Priority Points only apply to State allocations and will be removed prior to competing applications for national funds.

If you have any questions concerning this AN please contact the Energy Division, at (202) 720-1400.

*(Signed by JUDITH A. CANALES)*

JUDITH A. CANALES  
Administrator  
Business and Cooperative Programs