

**Minnesota Department of Agriculture  
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St. Paul, Minnesota 55107  
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December 6, 2002

Pandor Hadjy  
Assistant Deputy Administrator  
Business Programs, RBS  
U.S. Department of Agriculture  
1400 Independence Avenue, SW.  
Washington, DC 20250-3220

Dear Assistant Deputy Administrator Hadjy:

On behalf of the Minnesota Department of Agriculture (MDA), I am writing in response to the U.S. Department of Agriculture's solicitation for comments on the expansion of rural renewable energy systems.

Minnesota has several noteworthy accomplishments in the area of renewable energy. Our ethanol industry has become a model for other states looking to add value to their locally grown corn while also reducing reliance on foreign oil. This spring, our state legislature approved a measure that will boost the state's use of biodiesel derived from Minnesota soybeans. Our wind energy industry is growing rapidly, and innovative dairy farmers are installing methane digesters on their farms. These digesters not only generate more electricity than the farm needs (allowing the farmer to sell energy back to his or her provider), but they also help control manure odors.

Given our positive experiences, we are interested in doing what we can as a state to continue the spread of renewable energy technologies. We also welcome activities at the federal level to encourage on-farm renewable energy technologies. With that goal in mind, we offer the following comments.

To be most effective, any USDA program to boost renewable energy technology should strive to encourage maximum innovation, and then maximum adoption by farmers and other landowners. To encourage maximum innovation, USDA should give funding priority to innovative projects that solve existing problems in new ways. Similarly, USDA can encourage maximum adoption by giving funding priority to projects with clear economic benefits for the party implementing the technology.

One example of a technology that meets both criteria is the methane digester, which supplies renewable energy, adds value to a livestock production facility, and reduces odor emissions. With regard to funding of methane digesters, special emphasis should be placed on projects that can demonstrate strong partnerships with local communities, private industry and local utilities.

Also, projects should be eligible regardless of the business structure or geographic location of the loan or grant applicant. If the goal is to encourage maximum adoption, it would be counterproductive to limit eligibility to selected business structures or to applicants in a specific region. After all, the expansion of renewable energy technology will deliver economic and environmental benefits to all Americans.

With regard to the preferred form of financial assistance, careful consideration must be given to what approach will be most attractive to the program's target market of farmers and other rural landowners. Between direct loans and loan guarantees, direct loans would seem to be more attractive to farmers. Specifically, MDA's experience with state-level farmer loan programs has shown that zero-interest loans are a most effective vehicle for projects involving newer technologies.

In addition to zero-interest loans, grants may prove to be an ideal enticement for the truly innovative projects, for which it may be tougher to attract initial interest from landowners. The federal limit of covering no more than 25 percent of the project costs with grants appears reasonable, as does the policy of having direct loans available for up to 25 percent of the project.

To maximize the impact of federal funds allocated to this purpose, I suggest that having reasonable matching fund requirements can help encourage public/private partnerships and ensure project originators take maximum ownership. This approach also promises the biggest return on investment.

Matching funds sources that may be available in Minnesota include the following:

- State digester loan pool;
- EQIP funds;
- Local utility grants;
- Rural utility services loans;
- Private industry contributions; and
- Municipal loans/economic development funds.

Renewable energy technologies such as ethanol and manure digesters do more than produce clean energy. They also create added value for production agriculture and can help solve existing problems. Renewable energy can be a boon for rural Minnesota and rural America, and USDA deserves credit for its interest in promoting it. If I can provide you with any additional information or otherwise be of assistance in this matter, please do not hesitate to contact my office at 651-297-3219.

Sincerely,



Gene Hugoson  
Commissioner

GH:CO:mcs