TO: State Directors, Rural Development  
ATTN: Business Program Directors  
FROM: Karama Neal, PhD /s/ Karama Neal, PhD  
Administrator  
Rural-Business-Cooperative Service  
SUBJECT: Components and Ancillary Infrastructure of a Renewable Energy System  

PURPOSE  
This Administrative Notice is issued to provide guidance to field staff on the eligibility of components and ancillary infrastructure of renewable energy system (RES) projects, including those that move renewable energy from its initial source of production to upstream initial point of sale channels.  

COMPARISON WITH PREVIOUS AN  
No previous AN has been issued on this subject.  
This guidance applies to Rural Energy for America Program (REAP) grants and loan guarantees found in program regulations at 7 CFR 4280-B (Rural Energy for America Program) and 7 CFR 5001 (OneRD Loan Guarantee).  

BACKGROUND  
Traditionally, the Agency has funded requests from industry where renewable energy has been produced, upgraded as necessary, and sold at the same location, by the same applicant entity.  
Recently, industry has shown interest in establishing ownership structures separating ownership of the renewable energy production system from the upstream upgrading  

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system, bringing into question the eligibility of a separate upstream upgrading system as an eligible RES project under REAP.

Examples of such systems may include:

1. An anaerobic digester which takes in feedstock such as animal waste or food waste and produces biogas. Biogas is then transferred to an upgrading system to produce renewable natural gas (RNG). The process of upgrading biogas to RNG includes the removal of any carbon dioxide and any other contaminants present in the biogas. The upgraded biogas, now biomethane or RNG, is now ready for distribution into a natural gas pipeline.

2. A wind turbine or group of wind turbines which use wind resources to produce electricity. The electricity is then converted into useable energy and is transferred to the device that will use the energy or into a storage system which stores the energy for later use or sale.

3. An ethanol plant which takes in feedstock such as corn and produces ethanol. The ethanol is then denatured and is transferred to a distribution system to move the energy to its initial point of sale.

4. A solar photovoltaic system which produces electricity. The electricity is converted into useable energy and is transferred to an electronic vehicle charging station which stores the energy for later non-retail use.

By definition, and in accordance with 7 U.S.C. 8101, the term renewable energy system means a system that produces usable energy from a renewable energy source, and may include:

1. Distribution components necessary to move energy produced by such system to the initial point sale; and

2. Other components and ancillary infrastructure of a system, such as a storage system; however, such a system may not include a mechanism for dispensing energy at retail.

In the examples above, the upgrading systems are necessary distribution components to move renewable energy produced by a system to the initial point of sale. Such components must be part of the infrastructure to move the energy to the initial point of sale but may not include a mechanism for dispensing energy at retail.
Based on this definition, the Agency concludes that components and ancillary infrastructure of a renewable energy system, even if owned by a separate entity from the entity producing the renewable energy, are projects eligible to be considered for REAP loan guarantees and grants.

**IMPLEMENTATION RESPONSIBILITIES**

The Agency’s goal is to meet the stated purpose of the REAP program which is to promote energy efficiency and renewable energy development for agricultural producers and rural small businesses. The definition of renewable energy includes distribution components and ancillary infrastructure of renewable energy systems which helps achieve this goal.

Applications for components and ancillary infrastructure, including those owned by a separate entity from the entity producing the renewable energy, should be considered eligible immediately.

**Application Intake**

All application materials for the program being applied under will be required, including a technical report when applicable, that must demonstrate technical merit. When reviewing such applications, offtake agreements must be in place between, 1.) the renewable energy producer and the owner of the components and ancillary infrastructure and 2.) the owner of the ancillary equipment and the off taker of the renewable energy, if not for direct use or if not the same entity.

**Scoring Applications for Separate Component and Ancillary Infrastructure Systems**

REAP applications are scored based on the amount of renewable energy the specific project improvement generates. Applications for components and ancillary infrastructure, although meeting the statutory definition of a renewable energy system, are technically not generating, or producing energy, but rather using existing renewable energy for upstream applications. Because of this, these applications receive a score of “0” for energy generated. Simple payback will be calculated by taking the total project cost of the biogas upgrade system divided by the documented value of the revenue streams associated with the project.

When eligible projects will generate zero energy, the Agency should request that the applicant includes in its application a summary of non-energy benefits associated with the project to be realized as a result of the Agency’s investment in the project. These may include benefits such as the proposed amount of CO2 that will no longer be released into the atmosphere, reduced water consumption, or improvements to air and water quality.
It is expected that separate component and ancillary infrastructure system applications will not score well and will have a difficult time competing for funds against other applications, particularly REAP grant applications. Nonetheless, these applications are eligible and should be considered.

If you have any questions, please contact Deb Yocum, Business Loan and Grant Analyst, Direct Programs Branch at (402) 499-1198 or at debra.yocum@usda.gov or Maureen Hessel, Business Loan and Grant Analyst, Underwriting Branch-Guaranteed Lending at (202) 401-0142 or at maureen.hessel@usda.gov.