

{As prepared for delivery}

Nevada Pinyon-Juniper Restoration and Utilization Summit

North Las Vegas, Nevada

Wednesday, December 8, 2010 – 8:00 a.m.

Remarks for USDA Rural Development Under Secretary Dallas Tonsager

Good morning and thank you Sarah (Adler) for the kind introduction. Thank you for the opportunity to speak with you today.

I commend each of you for your commitment to ensuring good stewardship of our lands, and for helping to bring greater energy independence to our nation.

We are pleased to have Sarah Adler as part of our USDA leadership team.

President Obama made a good choice in selecting Sarah. She has been working very hard on your behalf – She is dedicated toward building economically viable and sustainable communities in Nevada.

Your conference has parallel goals to our efforts at USDA: Being good stewards of our lands and expanding the production and consumption of renewable energy.

Carrying Out President Obama's Energy goals

We are fortunate to have Secretary Vilsack leading our renewable energy efforts at USDA.

- Renewable energy is a top priority for the Department, and
- A critical component to rebuild and revitalize rural America.

To underscore this commitment, USDA has identified as the #1 goal in the Department's strategic plan: To assist rural communities to create prosperity so they are self-sustaining, repopulating and economically thriving; and the #2 goal is: To ensure our national forest and private working lands are conserved, restored, and made more resilient to climate change, while enhancing our water resources. Under Secretary Sherman will expand more on the second goal later today.

Slide #2 – The Opportunities



The Opportunities

President Obama's Goals

- Energy Independence
- Create Green Economy
- Create Green Jobs

USDA
Rural Development
Sustaining the Future of our Communities

USDA is working across departments -- We have ongoing dialogue with Federal counterparts, public and private sector leaders through a biomass research and development board that I co-chair with the Department of Energy.

This is an important collaboration, focused on:

- Research, development and commercialization
- Meeting President Obama's goal for energy independence, creation of a green economy and green jobs.

Slide #3 Collaboration

Collaboration

- Department of the Navy
 - MOU/ Hawaii
- Federal Aviation Administration
 - MOU
 - Farm To Fly (Aviation Transportation Association)
- Department of Energy
 - Flexible Fuel Pumps
 - Utilize state ARRA funds



USDA Rural Development
Department of Agriculture

An example of this collaboration came with the December 2009 announcement by Energy Secretary Chu and Agriculture Secretary Vilsack that USDA Rural Development selected San Diego, California based Sapphire Energy to receive a non-ARRA loan guarantee for up to \$54.5 million through the Biorefinery Assistance Program to demonstrate an integrated algal biorefinery process that will cultivate algae in ponds, and will use dewatering and oil extraction technology to produce an intermediate that will then be processed into drop-in green fuels such as jet fuel and diesel. DOE is providing \$50 million. This project will be constructed in Columbus, New Mexico.

The partnership Sarah and her USDA and Department of Interior colleagues (Bureau of Land Management, Forest Service, Ag Research Service, and NRCS) are building with you is another example of how USDA is committed to working together to better utilize and restore forest resources.

Collaboration, instead of stove piping our respective resources is important. We must integrate private, public and government resources to build new cellulosic markets. We have the collective capacity, not only through those in the room today, but through others who we hope will be at the table in the future.

Collectively, we can address the complex balance of restoration and preservation of our forest lands, with market opportunities. Sarah has a great deal of energy and commitment to meeting these USDA goals, not because they are goals, but because it is good government, and the right thing for Nevada woodlands.

We are building additional private sector (and government partnerships) that will help expand cellulosic production, marketing, and consumption:

Department of the Navy MOU – Hawaii

Federal Aviation Administration MOU

Air Transportation Association – Farm to Fly

Department of Energy – Partnering to utilize ARRA funds to support USDA’s Flex Fuel Pump goal – 10,000 in five years

I understand that for you in Nevada possibly your mining industry could be a key market for biofuels produced here in the state, and I encourage you to work in that direction.

USDA is Aggressively Implementing the 2008 Farm Bill

(Slide #4 - Farm Bill-Title IX-Energy)

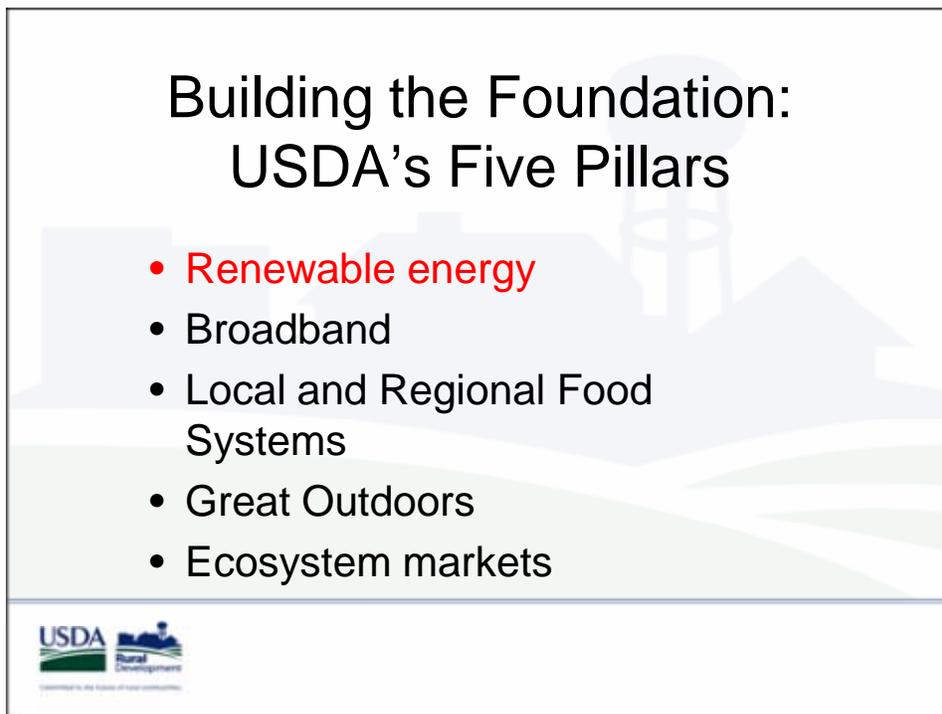
Farm Bill-Title IX-Energy

- Biomass Crop Assistance Program (BCAP)
- Biorefinery Assistance Loan Guarantee Program
- Repowering Assistance Program
- Bioenergy Program for Advanced Biofuels
- Rural Energy for America Program (REAP)
- Biomass Research and Development



This slide represents the confidence the U.S. Congress has placed in USDA in helping to bring rural America into America's energy future. These programs range from supporting research and development to assisting with the financing of small to large scale operations. I anticipate that some of them will be tools to put to work here in Nevada.

(SLIDE #5 -Building the Foundation: USDA's Five Pillars)

A presentation slide titled "Building the Foundation: USDA's Five Pillars". The slide features a background image of a rural landscape with a water tower and rolling hills. The title is centered at the top. Below the title is a bulleted list of five pillars: Renewable energy (highlighted in red), Broadband, Local and Regional Food Systems, Great Outdoors, and Ecosystem markets. At the bottom left is the USDA logo with the text "USDA Rural Development" and "Supported by the House of Representatives".

Building the Foundation: USDA's Five Pillars

- **Renewable energy**
- Broadband
- Local and Regional Food Systems
- Great Outdoors
- Ecosystem markets

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Supported by the House of Representatives

Building a Strong Rural Economy

Building a strong new rural economy requires a solid foundation - communities coming together to build regional economies – that can support an entire hub of communities.

Secretary Vilsack has been talking about economic opportunities within emerging local and regional food systems; we can also talk about economic opportunities afforded by a regional energy system. The production and use of renewables on a regional basis makes the most economic sense and it's a historic economic opportunity for agricultural producers and rural America.

Capital Markets

Critical to building regional economies is the ability to access credit – we have worked to expand knowledge and participation by lenders in our Business and Industry Guarantee Loan Program, to expand capital markets for rural business investments. We are adding and modifying other business related programs that can be beneficial to building strong economies. Sarah can work with you to learn about all of our programs.

Secretary Vilsack has laid out five pillars that serve as the foundation for building regional economies in rural America:

- Local and Regional Food Systems
- Broadband
- Renewable energy
- Great Outdoors
- Ecosystem markets

In support of building sustainable markets, we must not only focus on research, development and production, we must also concentrate our efforts on market consumption opportunities.

Secretary Vilsack Challenge:

Secretary Vilsack issued a challenge during his October 21st Press Club energy remarks; to expand the number of Flexible Fuel Vehicle pumps by 10,000 over the next five years.

Whether you determine it makes sense to build a market that supports your mining industry, or vehicle consumption, the underlying driver must be to expand America's access to biofuels.

Expanding Market Consumption

(Slide #6 – FFV Strategy)

Expanding Market Consumption

- USDA Roadmap to Meeting Biofuels Goal
(June 23, 2010)
 - Building strategic regional biofuel markets
- Strategic alignment of product to consumer (FFV concentrations). Build market demand.
 - Collaboration between Federal, State and local governments, along with private sector



USDA Rural Development
Leadership in the Field of Food and Communities

President Obama took office amid an array of challenges:

- Our economy was in freefall – deepest downturn since the Great Depression

The President took strong and politically-difficult steps to rebuild the economy; and for USDA, our budgetary commitment includes almost \$26 billion to build on:

- New opportunities from renewable energy,
- Local and regional food systems, and
- Environmental markets and green jobs.

(SLIDE #7 - President Obama's Commitment to Renewable Energy)

Strategy

- **President Obama directive to establish Biofuels Interagency Working Group**
(May 5, 2009)
- **Growing America's Fuel Report** (Feb. 3, 2010)
- **USDA Roadmap for Strategic Production**
(June 23, 2010)


USDA Rural Development
Committed to the future of food communities.

As part of this effort, President Obama released the “Growing America’s Fuel” report on February 3rd. It came from his May 5, 2009, directive to establish a Biofuels Interagency Working Group with the responsibility for developing the Nation’s first comprehensive biofuel market development program. Followed by USDA’s report on building a roadmap to strategic production.

The February 3rd report lays out our Administration’s strategy to advance the development and commercialization of a sustainable industry – continued support for first generation biofuels while accelerating the focus on second and third generation biofuels development.

- 500 new plants will need to be built to meet the Congressional mandate to produce 36 billion gallons of biofuels per year by 2022.
- And we also estimate that farmers’ incomes will increase by \$13 billion annually by 2022.

“Growing America’s Fuel” puts rural America at the forefront again.

The next step was developing a comprehensive regional strategy to help recharge the rural economy. The objectives are to draw from the experts in the field, identify challenges and opportunities and help develop solutions.

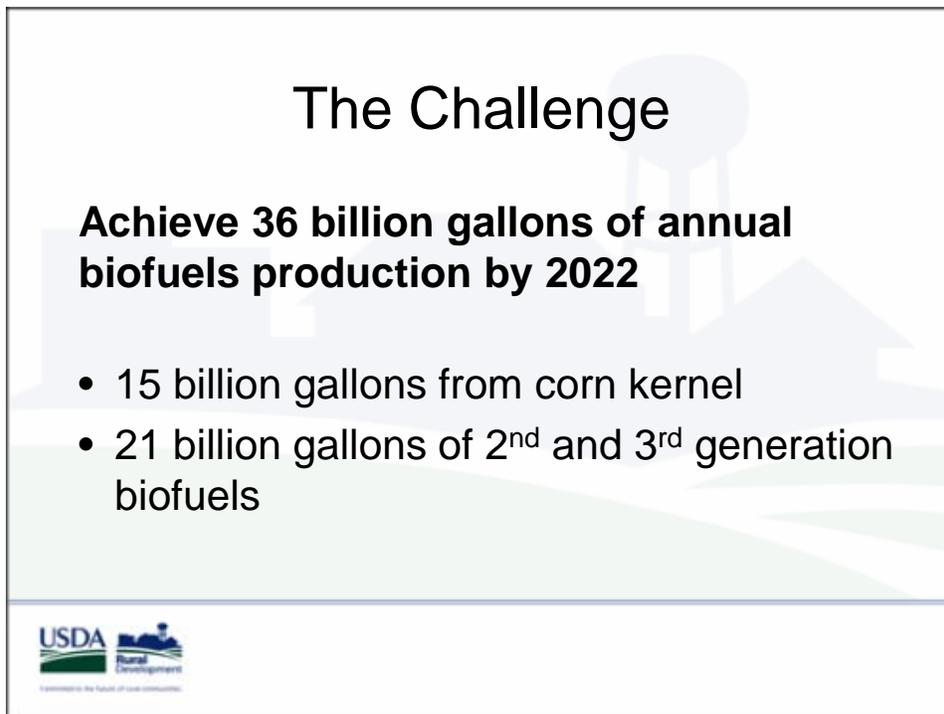
We all know what it's like to have the large business or plant in your town shut its doors and friends and family out of work. Manufacturing has been hit hard, but it doesn't mean it can't come back again. What we've learned is - we can't rely on just one industry or one pathway to energy. Our plan believes that manufacturing and a green economy can and should go hand in hand.

Over the 90's, we were successful building the ethanol industry because we approached it strategically. Our ag producers knew how to efficiently produce corn, the technology for corn starch-based ethanol was there, and increased corn acreage could support greater ethanol output. This was a significant accomplishment and a compliment to our American farmers and their investments in cooperative ventures. The industry grew from meeting 1% of U.S. gasoline supply in 2000 to 7% in 2008.

The Business Model

We can do what we did for ethanol with other forms of biomass, but we need to be smart about it. We've funded hundreds of projects, but so far we've had little effective integration of these efforts across government agencies and no real plan for achieving our target.

(SLIDE # 8 – The challenge) “Growing America’s Fuel” is that plan.



The Challenge

Achieve 36 billion gallons of annual biofuels production by 2022

- 15 billion gallons from corn kernel
- 21 billion gallons of 2nd and 3rd generation biofuels

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Expanding the Reach of Your Community

When Congress passed the Energy Independence and Security Act of 2007, it established a significant challenge:

- 36 billion gallons of biofuels by 2022.

However, only 15 billion gallons of corn ethanol qualifies for the RFS 2.

(SLIDE # 9 - The timeframe)

The Timeframe

To meet the challenge of producing 36 billion gallons by 2022 we need:

- Adequate capacity operational by the end of 2021
- All projects in construction by 2020

We have 10 years



(SLIDE #10 – (The plan))

The Plan – Growing America’s Fuel

- President Obama’s May 5, 2009 Biofuel Directive
 - Create a “deal flow” - assuring the development of enough projects to meet the goal
- Include business structures for broad investment and the potential of “wealth creation” in rural areas
- Spread the risk as wide as possible, with different forms of businesses



(SLIDE #11 – The five elements)

The Five Elements of Feasibility

- Technical feasibility
- Management feasibility
- Economic feasibility
- Market feasibility
- Financial feasibility



The timeframe:

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The plan:

- President's May 5, 2009 Biofuel Directive
 - Create a “deal flow” - assuring the development of enough projects to meet the goal
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- Spread the risk as wide as possible, with different forms of businesses

We can meet this challenge if the technology and lender confidence is there. Uncertainties must be addressed up-front for all supply chain components to build confidence for creating markets, investments, and credit to sustain long-term biofuel production by focusing on:

- Technical feasibility
- Management feasibility
- Market feasibility
- Economic feasibility
- Financial feasibility

Biofuel production is an evolutionary process. Like computer technology - the newest version is always ahead of us. Ten years ago, we couldn't buy Windows 7.0; the other versions had to come first. Second-generation technologies that turn crop residue like corn stover or energy crops like switchgrass into ethanol, and third-generation technologies that turn feedstocks into advanced biofuels – will need to become commercially viable. Our USDA Research Education and Economics Service does the technology research and my agencies, in Rural Development, we put the deals together.

Secretary Vilsack has been talking about economic opportunities within emerging local and regional food systems; we can also talk about economic opportunities afforded by a regional energy system. The production and use of renewables on a regional basis makes the most economic sense and it's a historic economic opportunity for agricultural producers and rural America.

So how do we do this? By working back from our 36 billion gallon target, using a regional supply chain approach. We will focus on a diverse group of dedicated feedstocks that our researchers have identified:

1. perennial grasses
2. energycane
3. biomass sorghum
4. oil seeds crops and algae
5. woody biomass

You see your source of feedstock here on the slide. It is true that resources are limited; it is also true that additional benefits beyond the biofuels created accrue in terms of ecosystem values as the restoration activity occurs. We need to keep all of those in mind.

We can address the environmental challenges in a sustainable manner using a project by project basis, taking into account local implications.

(SLIDE # 12 – Re-engineering the Process)

Re-engineering the Process...

To meet the goal we need to:

- Re-engineer our government-wide processes to serve the needs of project development
 - Bring predictability and clear White House and departmental policy/guidance throughout
 - Support regionalization of feedstocks
- Integrate the process from all steps of the project
 - R&D, Demonstration, Commercialization, Distribution and End-user
- Bring capital together with technology
- Aggressively encourage the creation of well-funded high-quality projects to meet all elements of feasibility



USDA Rural Development
Commitment to the future of our communities.

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Aggressively encourage the creation of well-funded high-quality projects to meet all elements of feasibility

On the business side – we can use similar models for the ethanol industry. As you may remember, the way we put capital and projects together in the 90's, was by putting out proposals to the public, asking them to participate in the project – and asking for project membership fees. With those fees, we developed business plans and prospectuses to sell stock in the company. If there were enough people willing to invest, we were able to do the project. We could spread the investor and credit risk, as widely as possible.

One of the partners we are eager to work with is Cooperatives, whether they are producer co-ops or electric co-ops, each has a role to play in the President's renewable energy future.

This year, USDA celebrated the 75th Anniversary of the Rural Electrification Act – when our nation committed to electrifying rural homes, farms and ranches. Our success in the early part of the 20th Century, and again with the deployment of telephone services in rural areas, is due to the partnership forged between the NRECA and USDA. Today, we continue this collaboration as we build out access to rural broadband.

The cooperative model has 90 years of success. It works.

At USDA, we are keenly aware of how sensitive lenders are to risk mitigation. And we are dedicated to addressing these issues and to get capital flowing again. We've been meeting with lenders, establishing new relationships and building on old ones. As we continue to invest in and develop advanced biofuels technologies; many will become eligible for more conventional forms of financing.

On the issue of policy uncertainty, whether or not we have cap-and-trade legislation, we must continue technology development and demonstrate to lenders the importance of transitioning to advanced biofuels. There will always be uncertainties. There will always be surprises. Neither markets nor technologies are static.

But the President and the Congress have clearly outlined our role. Our job is to implement legislation. Our responsibility is to support the entrepreneurs that have the initiative and the drive, to go out there and compete in the marketplace to build a new energy future.

(SLIDE #13 – Path ahead)



The slide features a light green background with a faint image of a wind turbine and rolling hills. The title 'Path Ahead' is centered at the top. Below it are three bullet points. At the bottom left is the USDA logo with the text 'USDA Rural Development' and 'Empowering the future of our communities'.

Path Ahead

- Biomass Board will coordinate Federal efforts to include biofuels, biopower and biobased products
- President's Biofuels Interagency Working Group will coordinate to accomplish the RFS2 mandate of 36 billion gallons by 2022
- USDA will focus on Public/ Private Partnerships to accomplish challenges

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Path ahead

- Biomass Board will coordinate Federal efforts to include biofuels, biopower and biobased products
- President's Biofuels Interagency Working Group will coordinate to accomplish the RFS2 mandate of 36 billion gallons by 2022

USDA will focus on Public/ Private Partnerships to accomplish challenges

Looking to the future

As the ethanol industry continues to build out and shore up those experiencing financial challenges, USDA will aggressively work to provide an array of financial and technical assistance resources needed.

Thank You

Thank you for the opportunity to join you today and I look forward to working with you to build out America's Energy Independence.