United States Department of Agriculture

Rural Development

Office of the Administrator

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RD AN No. 4900 (5001)

TO: State Directors, Rural Development

ATTN: Business Programs Directors

FROM: Victoria Collin
Acting Administrator
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Date: 2025.03.18 17:09:19 -04'00'

SUBJECT: Business and Industry Guaranteed Loan Program and Rural Energy for America Program Battery Energy Storage Systems Projects

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to provide guidance on determining acceptable loan structures and underwriting guidelines for guaranteed loans for stand-alone Battery Energy Storage Systems (BESS) under the Business and Industry (B&I) Guaranteed Loan Program and Renewable Energy System (RES) with battery components under the Rural Energy for America Program (REAP) Guaranteed Loan Program. Because stand-alone BESS does not produce energy, stand-alone BESS has not been eligible for REAP Guaranteed Loans. BESS can be eligible for REAP when right-sized and attached to a renewable energy system (RES) because the addition of battery storage can make the RES more efficient by time shifting the energy available for use. For B&I, the controlling regulation (7 CFR 5001.115(a)) states that arbitrage is not an eligible purpose. This AN clarifies that BESS projects would be eligible, when they meet the specific criteria that are articulated here.

COMPARISON WITH PREVIOUS AN:

There is no previous AN on this subject.

IMPLEMENTATION RESPONSIBILITIES:

According to the U.S. Energy Information Administration (EIA), BESS projects can provide electricity to the power grid and offer a range of services to support electric

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January 31, 2026

FILING INSTRUCTIONS:
Business Programs

power grids. Grid activity can balance supply and demand, move electricity from periods of low prices to periods of high prices (a strategy sometimes colloquially referred toas arbitrage), and allow electricity from renewable sources, such as wind and solar, to be stored until needed instead of curtailing those sources at times when more electricity is produced than is consumed.

Energy storage systems are not primary electricity sources, meaning the technology does not create electricity from a fuel or natural resource. Instead, the energy storage systems store electricity that has already been created from an electricity generator or the electric power grid, which makes energy storage systems ancillary components to other sources of electricity.

RD Instruction 5001, Subpart B, § 5001.115, details ineligible projects for all OneRD guaranteed loan programs. Section 5001.115(a) states as ineligible: "Any investment or arbitrage, or any speculative real estate investment other than cooperative stock, transferable stock, cooperative equity in accordance with § 5001.140 and NMTC projects in accordance with § 5001.141." The Agency recognizes that based on journal articles, public documents, and various other sources of information available to the public that a primary use of BESS could be viewed as arbitrage. However, utilities can also make use of batteries to improve grid reliability with services that support the transmission of electricity, known as ancillary services. These services ensure reliability and support the transmission of electricity from generation sites to customer loads. Such services may include load regulation, spinning reserve, non-spinning reserve, replacement reserve, and voltage support. The effective deployment of BESS can more fully utilize energy produced from intermittent sources to make power available when it is needed rather than reduce power production or discharge excess power produced at times when it is not needed. BESS can enhance the overall efficiency and utility of an intermittent source of power. It can also be useful to prepare and respond extreme weather events and other natural disasters.

The arbitrage term has been used loosely in battery storage, but in fact buying off peak power and selling peak power is not defined nor is it the definition of arbitrage. According to the EIA definition, arbitrage is defined as "the simultaneous purchase and sale of identical or similar assets across two or more markets in order to profit from a temporary price discrepancy" The sale of the electricity is not simultaneous, and further there are additional ancillary services which can be monetized through market participation. BESS projects support grid resilience, efficiency of operations and help maintain grid stability during peaks of high variability.

When projects meet the criteria described in risk mitigation measures below, standalone BESS projects will not be treated as arbitrage. In order to mitigate industry risk, the following mitigation measures should be included for all standalone BESS projects under B&I. These include but not limited to the following:

1) Establish a revenue floor where a majority of the energy revenue (not including ancillary service revenues) be subject to a 5-year floor. The floor must be level where total revenue (energy at the floor, merchant energy at that floor, and ancillary service revenues) is sufficient to cover the fixed operating costs of the project and the minimum debt service requirements.

2) This floor must be re-contracted after the initial 5 years. If the floor is not re-contracted by the end of the first 5-year term, the borrower will be required to increase the existing principal and interest reserve account by an additional 6 months into a fully funded reserve account held by the lender that requires excess cash flow sweeps until the floor is re-contracted.

3) In order to mitigate industry concentration and ensure geographic disbursement of funds, the Agency will determine a maximum annual dollar amount from B&I funding which can be obligated for these standalone BESS projects, and such maximum amount will be set forth in an annual funding notice.

If the BESS project is integrated with a RES, the BESS should be appropriately sized (typically, no more than 120 percent of projected energy production) to the corresponding RES, with a supporting technical report that must be approved by the Agency. The Power Purchase Agreement (PPA), addressing revenues of the RES and BESS with a minimum term of 5 years demonstrating financial feasibility of the project, is required.

All BESS projects must include adequate reserves, including a debt service reserve account to be established at or prior to closing of the permanent financing. An adequate replacement reserve will also be required to address future capex needs.

Co-borrowers and Affiliates

RD Instruction 5001, Subpart B, § 5001.126, outlines borrower requirements that must be met at the time of application and through issuance of the Loan Note Guarantee. Section 5001.126(a)(2) specifically discusses co-borrower requirements and states: "Co-borrowers. Except for CF guaranteed loans, in situations where any business or affiliate is dependent upon another's operations and are effectively one business or rely upon one another for loan repayment, they must be co-borrowers, unless waived by the Agency in writing when the Agency determines that adequate justification exists to not require the entities to be co-borrowers. Both co-borrowers must meet all requirements in this part. If the operating entity is truly independent and not reliant on another operation to remain viable or repay the debt, the Agency will allow one entity to be the sole borrower."

RD Instruction 5001, Subpart E, § 5001.406 details applicable guaranteed loan amounts based on the type of project and the source of funding. Section 5001.406(c) specifically discusses B&I projects and states: "The maximum total amount of B&I guaranteed loans (including the guaranteed and unguaranteed portions of any B&I guaranteed loans, the outstanding principal and interest balance of any existing B&I guaranteed loans, and any new B&I guaranteed loan that is the subject of an application) that may be made to a borrower is limited to a maximum amount of $25 million. The Secretary, whose authority may not be redelegated, may approve, at the Secretary's discretion, guaranteed loans in excess of $25 million and up to $40 million for rural cooperatives that process value-added agricultural commodities in accordance with § 5001.105(b)(18)(i). In addition to the borrower loan limit, there is a guarantor loan limit of $100 million pursuant to § 5001.406(c).

Applications may not be structured to circumvent the maximum guaranteed loan requirements for each loan and the Agency should review to ensure affiliates are included as co-borrowers as required by § 5001.126(a)(2). Separate and distinct contractual commitments for each borrower do not provide justification for determining businesses or affiliates are not dependent upon another's operations and are not effectively one business. Such contractual commitments may include, but are not limited to: 1) engineering, procurement, and construction contracts, 2) shared facilities agreements and/or interconnection agreements, 3) lease or sublease agreements, 4) revenue meter agreements, and 5) operations and maintenance agreements Due diligence should also be conducted to determine if the borrowers e share employees to determine if the projects are truly independent of each other. Similar projects that are located adjacent to each other or are in the same general location with the same or similar ownership should be treated as operating as essentially one business.

Technical Requirements:

As with all B&I projects, BESS will be evaluated by the same technical requirements as other projects. RD Instruction 5001, Subpart B, based on the regs at 7 CFR§ 5001.105 details eligible B&I projects and requirements. Section 5001.105(b)(22) specifically discusses technical merit requirements and states: "Integrated processing equipment and systems, such as biorefineries, renewable energy systems, and chemical manufacturing facilities, must utilize commercially available technology, equipment, and systems and demonstrate technical merit. The Agency will evaluate the following areas in making the technical merit determination: (i) Qualifications of the project team; (ii) Agreements and permits; (iii) Resource assessment; (iv) Design and engineering; (v) Project development; (vi) Equipment procurement and installation; and (vii) Operations and maintenance. *The demonstration of technical merit is the completion of two operating cycles at its designed production level. "Operating cycle" is the average time between the acquisition of materials or the providing of services and the final cash realization of that acquisition or provision of services."*

RD Instruction 5001, Subpart D, § 5001.306 details specific application requirements for B&I projects. Section 5001.306(a)(3)(iii) states: "A technical report is required for RES identified in § 5001.307(e) and for projects utilizing other integrated processing equipment and systems. The contents of the technical report must be consistent with the requirements of § 5001.307(e)(1) and must provide sufficient detail to enable the Agency to determine technical merit. The report can be provided in the technical feasibility section of a feasibility study or in a separate technical report." Much like the requirements for RES, for BESS, the Agency will require technical reports to be reviewed for technical merit at the time the application is submitted, regardless of whether the BESS is stand-alone (in B&I) or attached to a RES (in REAP).

BESS projects integrated with a RES that is determined to be eligible for REAP must follow the technical merit requirements outlined in § 5001.106(e).

If you have any questions regarding this AN, please contact Brian Wiles, Director – Guaranteed Lending, at brian.wiles@usda.gov or at (405) 612-4839.