

**Statement of Secretary Steven Chu
U.S. Department of Energy
Before the
Committee on Energy and Natural Resources
United States Senate**

March 13, 2012

Chairman Bingaman, Ranking Member Murkowski, and Members of the Committee, thank you for the opportunity to discuss the Department of Energy's efforts to strengthen our loan programs and to grow America's clean energy economy.

The Department's loan programs have been the subject of much public attention. As part of our commitment to being a responsible steward of public dollars, the Department has welcomed and cooperated with Congress' requests to discuss our loan portfolio. We also welcomed the independent review by Herb Allison, which we are here today to discuss.

Mr. Allison was tasked with: 1) analyzing the current state of the loan and guaranteed loan portfolio under two Title XVII programs -- Section 1703, Section 1705 -- and the Advanced Technology Vehicle Manufacturing loan program; 2) making recommendations for enhancement to the programs, if warranted and practical, to ensure effective monitoring and management of the current loan and loan guarantee portfolio; and 3) making recommendations, if needed, pertaining to early-warning systems to identify and mitigate potential concerns on a timely basis.

Mr. Allison released a thorough, thoughtful report. He made some important recommendations to strengthen the management and oversight of the loan portfolio. Even before the conclusion of Mr. Allison's review, we took steps -- many of which are consistent with the report's recommendations -- to improve the loan programs.

This includes ensuring that our team has a sufficient number of skilled and experienced personnel to monitor and manage the portfolio. We continue to work to make certain that the Portfolio Management Division has the resource capacity and expertise to actively monitor loan and loan guarantee transactions to protect U.S. taxpayers.

We have improved, and will continue to improve, processes for proactive monitoring, loan administration, compliance, reporting, and resolution capabilities to take into account industry best practices. And we have upgraded the electronic systems of the Loan Programs Office to better automate and standardize data, so it can be reviewed and acted upon in a timely and streamlined manner, and best inform decisions.

In addition, we have put in place rigorous internal and external reviews to hold the Loan Programs Office accountable. The Department takes our responsibility to U.S. taxpayers seriously, and we are looking closely at Mr. Allison's recommendations for additional improvements.

Mr. Allison evaluated both the monitoring efforts of the Loan Programs Office and its portfolio. As part of this effort, he and his team reviewed each active loan in the portfolio. They looked at the risk factors behind each loan and estimated the costs of each loan. Mr. Allison's report concluded that the Department is using the appropriate risk factors in assessing each loan. In some cases, the report recommended minor differences in the weights given to each factor.

The Federal Credit Reform Act defines the cost of these loan programs as the estimated long-term cost to the government, including the risk of default net of recoveries; for each loan, the subsidy estimate can be thought of as similar to a loan loss reserve. Congress appropriated \$10 billion in credit subsidy under the Federal Credit Reform Act for Title XVII and the Advanced Vehicle Loan Programs. Not all of the appropriated credit subsidy has been obligated.

While the portfolio includes loans to a range of projects that carry different levels of risk, the report finds that the Department of Energy has reasonably estimated the costs of these risks. In fact, Mr. Allison estimates that the estimated long-term cost of the outstanding portfolio is \$2.7 billion, roughly \$200 million lower than Department's most recent estimate.

The purpose of the loan programs is to provide low-cost financing to innovative clean energy projects that have a unique value to the nation -- both in terms of providing the clean energy our nation needs and in spurring the development of new industries that can generate many more jobs down the line.

Overall, the loan programs have been successful in growing America's clean energy sector. The Department supports roughly three dozen clean energy projects that are expected to employ more than 60,000 Americans, generate enough clean electricity to power nearly 3 million homes, and displace nearly 300 million gallons of gasoline annually. And these are just the direct benefits; they do not include additional jobs and investment that come from supply chains.

Through active projects supported by loans and loan guarantees, our Loan Programs are spurring \$40 billion in investment in clean energy and advanced vehicles and helping to unlock private capital. Additionally, the success of these projects is generating additional private sector activity by serving as a model for other projects. Thanks in large part to the loan programs and other federal programs, last year – for the first time since 2008 – the United States regained the title from China as the world's leader in total investment in clean energy.

The Energy Department is using all of the tools at our disposal, including the loan programs, to strengthen America's clean energy economy so we can compete globally.

Improvements in technology and dramatic reductions in cost are driving a global revolution in clean energy. Last year, a record \$260 billion was invested globally in clean energy, and trillions of dollars more will be invested in the coming decades. The question is no longer when the clean energy economy will arrive, but whether America will lead it.

As the global clean energy opportunity grows, so does the competition. Countries throughout Europe, Asia, and the Western Hemisphere have decided that energy technologies are critical to their national and economic security in the 21st century. Many countries have

established supportive policies and are making major investments in everything from renewables to electric vehicles to smart grids and the next generation of biofuels.

At least 10 countries have adopted renewable electricity standards, and more than 50 countries offer some type of public financing for clean energy projects. For example, Germany and Canada operate government-backed clean energy lending programs, and China has provided strong support to its clean energy industries.

These countries are determined to win the global clean energy race. And by any measure, they are already reaping rewards on their investments. Americans invented the silicon solar cell, developed modern wind turbines for electricity generation, and developed lithium ion batteries, but we are no longer the leader in these industries. China has surged into the solar manufacturing lead. Denmark is home to the world's largest wind manufacturer, and Japan and Korea lead in advanced battery manufacturing, although the United States is making strong gains.

To win the clean energy jobs of the future, the United States must do more than invent technologies; we must also manufacture them, deploy them here at home, and sell them around the world. The production of energy technologies benefits from scale. Simply put, we cannot have a competitive clean energy industry without programs that help spur deployment and markets.

America faces a stark choice today. Will we play to win the clean energy race – creating U.S. jobs by making and selling clean energy technologies – or will we watch the rest of the world pass us by? We can invest in America's workers, industries, and innovations or we can send more money and jobs overseas to import the technologies of tomorrow.

Throughout our history, from aviation to agriculture, from biotechnologies to computer technologies, the federal government has supported the private sector to keep the United States at the technological forefront of important industries. In clean energy, other countries are running our plays. It's time for us to take a page from our own playbook. We can still win the clean energy race, but we must act now.

This is a serious issue that deserves a serious discussion. I know this committee cares deeply about our energy future, and I look forward to working with you in the coming months to ensure that the United States leads in the energy technologies of the 21st century. Thank you, and now I am pleased to answer your questions.