Statement of David G. Frantz
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U.S. Department of Energy
Before the
Subcommittee on Energy and Power
And
Subcommittee on Oversight and Investigations
Committee on Energy and Commerce
U. S. House of Representatives

July 12, 2012

Introduction

Chairmen Whitfield and Stearns, Ranking Members Rush and DeGette, and Members of the Subcommittees, thank you for the opportunity to testify before you today. My name is David Frantz, and I am the Acting Executive Director of the Department of Energy's (DOE) Loan Programs Office (LPO). I was the first Federal employee hired for the Loan Guarantee Program, and served as its first Director when I joined, moving from the Overseas Private Investment Corporation (OPIC) on August 5, 2007.

The LPO administers two federal loan guarantee programs – Section 1703 and 1705 – for energy technology projects authorized by Title XVII of the Energy Policy Act (EPAct) as amended. It also administers direct loans for the Advanced Technology Vehicles Manufacturing (ATVM) program as authorized under Section 136 of the Energy Independence and Security Act of 2007 (EISA).

DOE's loan programs are a critical part of our nation's commitment to clean energy. I welcome the opportunity to discuss the Loan Programs Office with you and to comment on the legislation being considered by the Committee today.

Background on the Loan Programs

The Section 1703 program was established to support the U.S. deployment of new, innovative technology projects that avoid, reduce, or sequester greenhouse gas emissions. Currently, the program has $18.5 billion in loan guarantee authority for nuclear power projects, $1.5 billion in authority for energy efficiency and renewable energy projects, $8 billion in authority for advanced fossil projects, $4 billion of authority allocated for front-end nuclear projects, and $2 billion of authority that is not allocated to a specific technology sector. Under this authority, the applicant is required to pay the credit subsidy cost of the loan guarantee for their project. In addition, the FY 2011 Continuing Resolution provided approximately $170 million to pay the credit subsidy cost of loan guarantees for renewable energy and energy efficiency projects.

The Section 1705 program was created as part of the American Recovery and Reinvestment Act of 2009 (ARRA) to jump-start the country's clean energy sector by supporting various renewable energy projects that had difficulty securing financing in a tight credit market. Section 1705 pursued additional objectives and exhibited slightly different programmatic features than Section 1703. Most notably, applicants under Section 1705 were <u>not</u> required to pay the credit subsidy costs associated with the loan guarantees they received. Those costs were paid through funds appropriated by Congress.

The ATVM Program was established to expand U.S. business opportunities for advanced automotive technologies that contribute to energy independence and security. Section 136 of EISA 2007 authorizes DOE to finance U.S.-based businesses for manufacturing advanced technology vehicles or vehicle components and for engineering integration facilities. The FY 2009 Continuing Resolution provided up to $25 billion in direct loan authority for the ATVM program, with $7.5 billion in appropriated credit subsidy.

Evolution of the Loan Programs Office

The DOE Loan Programs Office was established to administer DOE credit programs with strong bipartisan support. It was designed to support financing on reasonable terms for innovative clean energy and advanced technology vehicles projects. As such, the LPO supports cutting-edge, innovative, energy technology manufacturing and generation projects in the United States in a wide range of sectors including renewables, nuclear, fossil, automotive, and transmission.

The LPO is a professional finance organization supported by nearly 100 subject matter experts and consultants.

It is important to note that the architecture of the LPO was based on the organization, policies and procedures, lessons learned, and systems employed by other Federal credit programs and private financial institutions.

Each of the policies and procedures implemented by the LPO to effectively underwrite and monitor energy projects is set forth in the Program's policies and procedures documentation, which is regularly reviewed and updated as appropriate..

The independent review by Herb Allison 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.

In the past year, the LPO has placed a high priority on developing and deploying state-of-the art business operating systems, including workflow management and records management systems. Organizing and maintaining verifiable electronic records, including the voluminous financial, technical, credit, legal, and other documents for each project is of the utmost importance, and the LPO is continuously improving its systems to ensure accurate application tracking, project management, and ready access to historical and current information.

The workflow management system will interface directly with the records management system and will be capable of generating routine monitoring reports on all closed projects. Integrating these systems ensures that LPO historical records are maintained according to Federal records management standards and that ongoing project reports are available in real-time to assist monitoring the portfolio.

Recent Accomplishments

It is noteworthy that the DOE Loan Programs Office represents the largest single source of debt financing for clean energy projects in the U.S. (public or private), as recognized in the *Bloomberg New Energy Finance, 2011 Clean Energy & Energy Smart Technology League Tables*. This has served to augment the capacity of capital markets to finance innovative and large-scale clean energy projects.

As of today, the LPO has committed or closed $35 billion in direct loans and loan guarantees, which finance nearly three dozen projects, with total project costs greater than $55 billion. When the Section 1705 program ended on September 30, 2011, it included a portfolio of over $16 billion in loan guarantees for 28 renewable energy projects. Collectively, LPO projects are expected to support nearly 60,000 jobs and deploy alternative energy that will save nearly 300 million gallons of gasoline per year. Of LPO's 19 generation projects, six are already complete and nine are sending power to the electricity grid. LPO projects include:

- The first two all-electric vehicle manufacturing facilities in the United States
- One of the world's largest wind farms
- One of the country's first commercial-scale cellulosic ethanol plants
- The first new commercial nuclear power plant to receive a combined construction and operating license and be built in the U.S. in the last three decades (conditional commitment)
- One of the first large-scale distributed photovoltaic projects, which places solar panels on commercial rooftops across 28 states
- Several of the world's largest solar generation facilities including:
    - The largest utility scale photovoltaic generation facility
    - The largest concentrated solar power plants in the world, two of which have the world's largest thermal energy storage systems

I would like to highlight three projects to demonstrate how projects funded by the LPO are able to fulfill the legislative intent of their respective program.

The 290 megawatt Agua Caliente solar generation project, owned by NRG Solar, LLC and MidAmerican Energy Holdings Company, is based in Yuma County, Arizona and will be the world's largest solar photovoltaic installation when fully operational. The project is already more than 70 percent complete. More than 3.3 million solar panels, spanning more than 2,300 acres, have been installed, and the project has started delivering clean, renewable energy to the power grid. For the more than 1,300 workers at peak construction, the project means steady employment, marketable skills, and the opportunity to play a critical role in shaping the nation's energy economy. The impact of this project is seen beyond the project site. Last year, First Solar, the engineering, procurement and construction contractor for Agua Caliente and other projects, spent more than $1 billion with U.S. suppliers across 38 states. Major domestic suppliers of steel fabrications and electrical equipment for Agua Caliente and other First Solar-supported projects include an Arizona-based division of Omco, Connecticut-based

Highway Safety Corp., Texas-based Powerhohm, and SMA Americas of Colorado. In addition, the project is using approximately 39,000 tons of American steel.

The 392 megawatt Ivanpah Solar Generating Complex, which is owned by NRG Energy, Inc., Google and BrightSource Energy, Inc., is located in Baker, California. The Complex is one of the largest infrastructure projects in the nation and the largest solar thermal plant under construction in the world. There are more than 1,700 workers currently on site, including manual construction workers, engineers, biologists and project managers. The impact of this project is also seen beyond the project site. For example, Ivanpah's steel supplier, Gestamp Solar Steel, built a new facility in Surprise, Arizona to keep up with orders. In addition, Michigan-based Guardian Industries started supplying 160,000 of its EcoGuard Solar Boost mirrors in November 2011. The Ivanpah Complex is approximately one-third complete.

And finally, with support from its Advanced Technology Vehicles Manufacturing loan, Ford Motors is helping to position the U.S. auto industry as a leader in fuel-efficient vehicles worldwide. Ford's ATVM projects have and will continue to raise the fuel efficiency of more than a dozen popular vehicles, including the Focus, Escape, Taurus, and F-150 trucks, representing approximately two million new vehicles annually. Furthermore, the ATVM loan program has assisted Ford to upgrade a number of key manufacturing facilities, enabling Ford to assemble high quality vehicles while transforming approximately 33,000 employees in the United States to clean engineering and manufacturing jobs in factories across six states – Illinois, Kentucky, Michigan, Missouri, New York and Ohio – and beyond throughout the supply chain.

LPO's entire portfolio of projects is now managed by the Portfolio Management Division, which employs industry "best practices" in asset management and portfolio monitoring processes and systems. Many of these have also been successfully employed for decades at federal institutions, as well as leading private lending institutions across the country.

In addition to active portfolio management, the LPO is working to close the advanced nuclear power generation project (Vogtle Project), and the AREVA uranium enrichment facility; performing due diligence on several advanced fossil projects; and actively working a project pipeline to use the approximately $170 million in appropriated credit subsidy in addition to the $1.5 billion in authority for qualified renewable energy and energy efficiency projects under Section 1703, whose applications were received before February 24, 2011.

Current Status of Loan Portfolio

In the Independent Consultants Report, Herb 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.

Legislation

The Department has concerns about the draft legislation being considered by the Committee today. The major provisions of the bill are as follows. The legislation would prohibit the Department from making any loan guarantees on applications received after 2011. The legislation would require the Treasury Secretary to make a written recommendation on "the merits of the guarantee", and if the Department does not follow Treasury's recommendation, the Energy Secretary would have to submit to Congress an explanation of why the recommendation was not followed. The legislation would also require the Energy Department to consult with the Treasury "regarding *any* restructuring of the terms and conditions of the loan guarantee" (emphasis added). Finally, the legislation would prevent the Department from subordinating a government loan in restructuring.

As discussed above, the Department has worked continuously to strengthen the loan programs. This effort has included improvements to the way loan guarantees are originated and the way in which they are monitored. With these improvements in place, the Department has concerns that the legislation would not result in increased taxpayer protections, but would instead hinder effective implementation of this important program.

Conclusion

Securing America's economic leadership in the future requires that we support innovation and deployment today. The troubles of some segments in the solar manufacturing market should not overshadow the great work that the Department's loan programs have done to date, or the need to continue to find ways to support clean energy deployment in this country.

That said, developing a robust clean energy manufacturing sector in the United States is crucial to our long-term national interests, and would help enable American companies and workers to attain the tools needed to succeed in this competitive space. And one of the most important tools — as our global competitors have learned — is financing on reasonable terms, wisely targeted and responsibly deployed. The question is whether we are willing to take on this challenge, or whether we will simply cede leadership in clean energy to other nations and watch as tens of thousands of jobs are created overseas. We were once the leaders in this field, and we can be again.

Thank you again for inviting me here today. I look forward to responding to your questions.