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Introduction

Chairman Upton and Chairman Murphy, Ranking Members Waxman and DeGette, and Members of the Subcommittee, thank you for the opportunity to appear before you today to discuss the Department of Energy's (DOE) Loan Programs Office (LPO).

The Role of the Loan Programs Office

The LPO issues loans and loan guarantees to accelerate the commercial deployment of clean energy projects and advanced vehicle manufacturing in the U.S. The program fills a critical role in the marketplace because the initial commercial deployment of new energy technology is often limited by a project developer's ability to secure sufficient full term debt financing to build the project. That is because commercial banks and bondholders are often unwilling to finance the first few commercial-scale projects that use a new technology since there is not yet a history of credit performance or operation. The LPO is uniquely positioned to address this market need by bearing some of the risk that traditional debt providers are either unwilling or unable to assume.

Every transaction supported by the LPO is a public-private undertaking. While the Department issues loans and loan guarantees to provide the necessary debt financing for these projects, the project sponsor must provide significant project-level equity investments. Equity invested from private sources must represent at least 20% of the total cost of every project, and usually represents more. DOE will not issue a loan or loan guarantee until substantial private equity support is committed.

The LPO supports these innovative projects by administering two separate programs: the Title XVII loan guarantee program and the Advanced Technology Vehicles Manufacturing (ATVM) Loan Program.

The Title XVII loan guarantee program was authorized by the Energy Policy Act of 2005 and signed into law by President George W. Bush. It provides the Department authority to issue loan guarantees to support the initial commercial deployment of clean energy projects that utilize innovative technology and reduce, avoid, or sequester greenhouse gases in the United States. The program covers a number of eligible technology areas including advanced fossil energy, nuclear energy, renewable energy, and energy efficiency.

The Advanced Technology Vehicles Manufacturing Loan Program (ATVM) was authorized under Section 136 of the Energy Independence and Security Act of 2007. It provides the Department with authority to issue direct loans to auto manufacturers and component suppliers to manufacture advanced, fuel-efficient vehicles and components in the U.S.

The Loan Programs Office Portfolio

The LPO currently manages a portfolio comprising more than $30 billion of loan guarantees, loans, and conditional commitments covering 31 projects including the first new nuclear power plant to be licensed and constructed in the United States in more than thirty years, some of the largest utility-scale solar facilities in the world, dozens of retooled auto manufacturing plants producing some of America's best-selling vehicles, the world's largest solar thermal energy storage system, and many other ground-breaking projects. Overall, these loans and loan guarantees have resulted in more than $50 billion in total project investment.

Under the Title XVII program, the LPO currently has seventeen electricity generation projects in operation that produce enough clean electricity to power more than 550,000 homes annually – or roughly a city the size of Phoenix, AZ. This number will continue to rise as more of our projects come online.

The ATVM program has supported the production of over 4 million cars and approximately 35,000 direct jobs across eight states, including California, Illinois, Michigan, Missouri, Ohio, Kentucky, New York and Tennessee.

Even in the context of the program's statutory mandate to take on technology risk, losses to date represent only approximately 2 percent of the entire portfolio and we believe our performance is strong and compares favorably to the private sector.

Beyond the strong performance of the portfolio, I wanted to take this opportunity to highlight three specific examples that demonstrate LPO's commitment to American competitiveness and achieving an "all-of-the-above" energy strategy.

- **Supporting Construction of America's First New Nuclear Reactor in 30 Years**: In February, the Department issued $6.5 billion in loan guarantees to Georgia Power Company and Oglethorpe Power Corporation to support construction of two new 1,100 megawatt (MW) Westinghouse AP1000® nuclear reactors, a first-mover for a new generation of advanced nuclear reactors, at the Alvin W. Vogtle Electric Generating Plant in Waynesboro, GA. This project represents the first new nuclear facility in the U.S. to begin construction and receive a Nuclear Regulatory Commission license in nearly three decades.

  By supporting the Vogtle project, these loan guarantees are also facilitating the broader deployment of new advanced nuclear reactors in the U.S.

- **Launching Utility-Scale Solar in the U.S.**: In 2009, there was not a single photovoltaic solar facility larger than 100 MW in the U.S. A number of project developers with long-term power purchase agreements (PPAs) were interested in building large, utility-scale projects, but these developers faced challenges securing the necessary debt financing due to the scale and innovative nature of the projects.

In response, the LPO guaranteed $4.6 billion in loans to support the first five utility-scale projects representing more than 1,500 MW of capacity. On the final loan guarantee, the LPO worked with a number of commercial lenders in order to enable them to build experience with these projects.

Following these five projects, ten additional PV projects larger than 100 MW were financed solely by commercial lenders. Today, these solar projects are more readily financed by private lenders – many of whom began their participation in the solar sector working with the LPO through its Financial Institution Partnerships Program (FIPP). These lending partners include leading financial institutions such as John Hancock, Bank of America, Citigroup, and others.

- **Supporting the American Auto Industry Resurgence**: Ford Motor Company is helping to position the U.S. auto industry as a leader in fuel-efficient vehicles worldwide. Through the ATVM program, Ford retooled and modernized factories in the United States, which created and preserved manufacturing jobs for more than 33,000 Ford employees.

  The factory improvements from this project enabled Ford to continue improving fuel efficiency in more than a dozen popular vehicles, including the Escape, F-150, Focus, Fusion, and C-Max. The innovations include the family of Ford EcoBoost engines, which are available in almost all models, and introductions of new hybrid, plug-in hybrid, and all-electric plug-in vehicles. Earlier this month, Ford announced that it had sold its 500,000th Ford F-150 with a V6 EcoBoost engine.

  In addition to supporting American automakers like Ford, the ATVM program helped launch Tesla Motors, America's first all-electric automaker. Tesla's $465 million loan enabled it to reopen a shuttered auto manufacturing plant in Fremont, California and to produce battery packs, electric motors, and other powertrain components. Tesla has created more than 3,000 full time jobs in California – far more than the company initially estimated – and is building out a supply chain that supports numerous additional jobs and technologies, and is bringing advanced manufacturing technology back to America. In May 2013, Tesla repaid the entire remaining balance on its loan nine years earlier than originally required.

Moving forward, the program is committed to continuing this success and utilizing its remaining loan authority. In December, the Department issued the Advanced Fossil Energy Projects loan guarantee solicitation, which makes up to $8 billion available to support innovative, advanced fossil energy projects in the U.S. In April, Secretary Moniz announced a number of improvements to the ATVM program in order to help support domestic advanced vehicle and component manufacturing. Most recently, the Department issued a draft Renewable Energy and Efficient Energy Projects Loan Guarantee Solicitation in April that is expected to make as much as $4 billion in loan guarantees available once finalized.

Risk and Portfolio Management

The Department of Energy takes its responsibility to the American taxpayer very seriously. As a result, the LPO underwrites and structures its loans and loan guarantees to protect the interests of taxpayers and maximize prospects for full repayment. Before making a loan or loan guarantee, the LPO conducts extensive due diligence on the application, with rigorous financial, technical, legal and market analysis by DOE's professional staff, including qualified engineers, financial experts, and outside advisors.

The LPO also has one of the largest, most experienced project finance teams in the world that has the capabilities and tools to support a number of different project types, all while managing risk appropriately. Transactions are structured to identify and mitigate risk as effectively as possible before proceeding with a loan or loan guarantee. Once a project closes, the LPO continues to use powerful monitoring tools—including strong covenants and strict project milestones—to control the amount of additional risk it assumes. DOE will continue to be an active manager, continuously monitoring projects, their market environments, and other identified risks to seize all opportunities to minimize exposure to loss.

As noted in a previous GAO report, some private lenders have noted that the Department's due diligence is as rigorous – or more so –than that performed in the private sector. Due in large part to the Department's meticulous due diligence, its commitment to establishing protections within all agreements and robust project monitoring, the portfolio as a whole continues to perform very well with total losses to date of only about two percent.

Despite these efforts, and consistent with Congressional intent through the appropriation of credit subsidy, we have experienced some losses and thus constantly strive to improve every aspect of our operations. Given the nature of our work, we have benefited from several recommendations for improvement, including recommendations from Congress, the GAO, DOE's Inspector General, and independent consultants such as former U.S. Department of Treasury official Herb Allison.

DOE has adopted many of these improvements, including streamlining the application process; adding transparency to the approval process; filling key positions with experienced professionals; clarifying authorities, strengthening internal oversight of the programs; developing a state-of-the-art workflow management system; establishing a robust early warning system; and improving reporting to the public. Furthermore, LPO continuously looks for additional ways of improving its underwriting and asset monitoring activities to incorporate lessons learned and ensure best practices to protect taxpayer interests.

The Department took the recommendations of the 2012 Independent Consultant's report, otherwise known as the Allison Report, very seriously. As noted by the recent DOE IG report, the LPO is making substantial progress in addressing the recommendations in the Allison report. Specifically, the program has made the following changes in response to this report:

- The Department has strengthened its internal oversight of the Loan Programs by restructuring the former LPO Credit Division to encompass a Risk Management Division. The Department has hired a number of experienced professionals across the organization including a new Executive Director, a Director of Risk Management, a permanent Chief Counsel, and several new senior Portfolio Managers.

- The LPO has improved, and will continue to improve, processes and systems for proactive monitoring, loan administration, compliance, and reporting, all of which contribute to the Department's comprehensive early warning system. The Program monitors market, regulatory, and counterparty risks that can affect credit performance and develops periodic reports for each transaction which provide an in depth analysis of the risks.

- Using its work management system, the Program generates periodic management reports for senior LPO and DOE leadership. The LPO is currently enhancing the utility of its content management system and is in the process of rolling out a management information reporting system (MIRS) that should allow for even more robust reporting on the portfolio and the Program's performance.

Recently, the Government Accountability Office (GAO) and the Department of Energy's Office of Inspector General (OIG) have issued reports related to LPO's loan monitoring and implementation of the various recommendations provided in previous reports.

The LPO generally agrees with the recommendations in the recent GAO report, *DOE Should Fully Develop Its Loan Monitoring Function and Evaluate its Effectiveness* (GAO-14-367), and is committed to constantly evaluating and improving its processes and procedures:

The LPO will continue its ongoing efforts to recruit and expand its staff for both the portfolio monitoring and risk management functions, complete its second generation management and reporting software, and memorialize, update and upgrade several operating procedures. The LPO will also continue to evaluate the effectiveness of the monitoring process as well as all other processes throughout the program.

We appreciate the GAO providing recommendations and work in identifying areas for improvements. We are committed to addressing those recommendations in an expeditious manner. We also noted in our response to the GAO a few areas where we disagreed with comments in the report. For instance, the GAO based its audit on a number of policy manuals dated from 2009 and 2011, which do not reflect the program's current practices. As the GAO report notes, the LPO is drafting new policies to reflect current practices. LPO's process documents are continually being reviewed and updated to reflect industry best practices, lessons learned, and new approaches tailored to the unique LPO portfolio. LPO's response to the GAO report also includes four other areas where we disagree with GAO's conclusions.

In addition, the LPO generally agrees with the conclusions of the recent report from the Department's OIG, *Audit Report on the Implementation of Recommendations from the January 2012 Independent Consultant's Review of DOE's Loan and Loan Guarantee Portfolio* (DOE/IG-0909). This report demonstrates that the Department has taken the Allison report seriously and has completed actions to address many of the Allison report's twelve recommendations and has made substantial progress in response to the remaining recommendations.

The OIG found that in cases where the Department had not implemented a specific recommendation from the Allison report, it had considered the recommendations and addressed the issue with a different approach. Further, the OIG noted that the Department had provided strong rationales for pursuing the alternative actions in these instances.

However, the OIG report went beyond the original Allison report and identified two additional recommendations to enhance management and oversight and to ensure transparency and accountability. We appreciate the additional recommendations by the OIG; they aid our efforts to improve of the LPO's processes. The LPO will continually monitor opportunities to improve its operation and achieve its mission, and is working to address the opportunities presented by the OIG.

Conclusion

Securing economic leadership in the future requires the support of clean energy innovation and deployment today. Developing a robust "all-of-the-above" energy strategy that provides a domestic supply of energy while reducing greenhouse gas emissions is crucial to our long-term national interests and will help American companies and workers attain the tools needed to succeed in a competitive global market. The LPO provides one of the most important tools to achieve these goals—as our global competitors have learned—debt financing on reasonable terms, wisely targeted and responsibly deployed.

Other governments have reached the same conclusion. China, Germany, Canada, and Australia, for example, operate government-backed clean energy lending programs. The UK, the Netherlands, and India have announced their intent to do the same. By facilitating credit, these programs allow projects to effectively deploy innovative energy technologies and establish a solid credit history—thereby making them more competitive and attractive to private lenders for subsequent projects.

The United States cannot cede the coming technological innovations and related economic development to competitors around the world. Not every company, nor every investment, will succeed, but the United States will be stronger and more competitive with continued support for a thriving energy industry here at home.

The achievements of the LPO to date are remarkable. But they are not enough and we need to do more to compete on the global stage. Starting with our recently issued Advanced Fossil Energy Projects Solicitation and continuing with our other remaining authority, we aim to do just that.

Mr. Chairman, I thank the members of the Committee and I look forward to answering your questions.