

STATEMENT OF
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U.S. DEPARTMENT OF ENERGY
BEFORE THE
COMMITTEE ON ENERGY AND NATURAL RESOURCES
UNITED STATES SENATE
FEBRUARY 12, 2009

Mr. Chairman and members of the Committee, thank you for this opportunity to be before you today to discuss the Department of Energy's Title XVII Loan Guarantee Program and to provide you with the current status of the program and the progress we have made to date.

First, I would like extend my appreciation to you Mr. Chairman and the other members of the Committee for your continued support and interest in the effective development of the Title XVII Loan Guarantee Program.

INTRODUCTORY STATEMENT

This program is an urgent priority for Secretary Chu as we face an unprecedented economic crisis that demands action. Secretary Chu is personally reviewing the program, and has committed to giving this program the attention, departmental resources and oversight it needs to succeed while ensuring that taxpayer interests are protected.

This is consistent with President Obama's commitment to acting boldly and urgently to put Americans back to work and reinvest in our economy. With more than 600,000 workers losing their jobs last month alone, Secretary Chu is committed to making this program work better and faster for the American people. And he is determined to move just as quickly to implement the important new energy investments included in the President's economic recovery plan.

The Loan Guarantee Program (LGP) has made progress over this past year. Nevertheless, Secretary Chu has directed us to accelerate the process significantly while maintaining appropriate evaluation and due diligence to protect taxpayer interests. We are moving to significantly shorten the cycle time from application to loan guarantee to ensure good projects get funded quickly. We also want to increase the transparency in the process to attract more good projects and to ensure the American people that the federal loan guarantees create jobs and contribute to long-term economic growth and competitiveness.

One immediate priority for Secretary Chu is automating, simplifying and streamlining the existing application and evaluation systems. There is every reason to believe we can so that we can process loans in less time while still insisting on a high standard of accountability, and protecting taxpayer interests. To make this transformation, Secretary Chu has tasked us to draw on the experience and success of the private sector and other agencies who have administered similar loan guarantees.

Let me quickly review with you the current status of the loan programs. DOE will provide additional information as warranted as we implement the program.

As you well know, the DOE Title XVII Loan Guarantee Program can be divided into five competitive solicitations. The 2006 mixed technologies solicitation closed in November 2008. We are currently evaluating 11 projects for \$4.0 billion in loan authority. Determining which of these projects represents a good federal investment and moving forward to closing on those good projects quickly represents our number one priority. The front-end nuclear power facilities solicitation closed in December 2008. We are currently evaluating two proposals for \$2 billion in loan authority. The first nuclear power facilities solicitation also closed in December 2008. Here we are evaluating 15 proposals for \$18.5 billion in loan guarantee authority. The fossil energy advanced technologies solicitation Part I applications were due on December 22, 2008. We are evaluating eight projects for \$8 billion in loan guarantee authority. The advanced renewables solicitation currently has \$10B in loan guarantee authority and is scheduled to close in February 2009 with the exception of the large scale renewable projects which will close in April 2009. We are putting in place processes to evaluate and fund acceptable projects on an expedited basis, while ensuring that taxpayer interests are protected. To expedite these loans, we are working expeditiously on the credit self-pay process, to reduce the paper work required, to automate the application process. The LGP is also working to expedite the NEPA review for these projects by coordinating with the applicants early in the process to ensure they submit the necessary information which allows for early determinations regarding the level of NEPA review required. We are also dependent on the continuing resolution to fund project evaluation, so we will monitor the upcoming 2009 appropriation action closely.

STATUS OF FY 2006 SOLICITATION (DE-PS01-06LG00001)

The LGP issued a solicitation in August 2006 for pre-applications only. The solicitation was issued under a total loan authority for \$4.0 billion which remains available until used. This was done to determine market interest although the program had not yet received an appropriation for standing up the program office or appropriation authority to issue loan guarantees. On February 15, 2007, the Continuing Appropriations Act for 2007 was signed into law. This law provided the final necessary authority, under the Federal Credit Reform Act, for DOE to implement the Program (including administrative expense funding). In this Act, Congress also prohibited DOE from entering into any loan guarantee agreements before program regulations had been published. I was hired shortly thereafter from the Overseas Private Investment Corporation. Two months after I

arrived, we issued the final rulemaking and selected 16 projects deemed financially and technically qualified from 143 pre-applicants and invited those 16 to submit full applications in accordance with the Final Rule. Consultations were conducted with each applicant to assist in the application requirements as well as policies and procedures to be followed.

Applications from this group of 16 were not immediately forthcoming. Therefore, the LGP was compelled to establish a closing date of November 19, 2008, for submitting completed applications. As of the closing date, the LGP received 11 applications out of the 16 that were invited to apply. These applications represent projects using renewable energy, fossil energy, and energy efficiency and reliability technologies.

To date, the applications have been reviewed for completeness, including NEPA compliance issues, and priority due diligence has commenced on a total of seven projects identified as potential early movers. The LGP is placing the highest priority on these projects through the due diligence and decision process for an ultimate recommendation to the Secretary on these applications this year. Due to the size, complexity, and likelihood of significant environmental effects, the remaining projects require Environmental Impact Statements (EIS) which means the projects would not reach a final decision until 2010.

FY 2008 SOLICITATIONS

Pursuant to the requirements of the Consolidated Appropriations Act, 2008, the LGP submitted a "FY 2008 Implementation Plan" to the Congressional Appropriations Committees in April 2008, allocating \$38.5 billion loan guarantee authorization consistent with Congress's explanatory statement in report language accompanying the Act and with the President's FY 2009 Budget. This authorization presently expires on September 30, 2009. When the mandated 45 day Congressional review period ended, the LGP issued three solicitations on June 30, 2008 covering (1) nuclear facilities for the "front-end" of the nuclear fuel cycle, (2) nuclear power facilities, and (3) energy efficiency, renewable energy, and advanced transmission and distribution technologies. On September 22, 2008, the LGP issued a subsequent solicitation for advanced fossil energy technologies. Given the complexity of the solicitations, a two part application process was followed to assist clients' responsiveness to the full application requirement as directed in the LGP Final Rule.

Let me briefly review the status of each of these solicitations and applications received to date.

FRONT-END NUCLEAR POWER FACILITIES SOLICITATION (DE-FOA-0000007)

As of the Part II submission deadline of December 2, 2008 for applications supporting Front-End Nuclear Facility projects, the LGP has received two Part II applications to support two different Front-End Nuclear Facility Projects. The LGP is in the process of

completing its due diligence on both projects with the expectation of having a final determination in the near future.

NUCLEAR POWER FACILITIES SOLICITATION (DE-FOA-0000006)

As of the Part II submission deadline of December 19, 2008 for applications supporting Nuclear Power Facilities, the LGP has received 15 Part II applications for 10 specific projects for federal loan guarantees.

In processing the Nuclear Power Facilities applications, DOE has applied a “self-determinant” system largely predicated upon each applicant’s “readiness to proceed” as well as the overall financial strength of the candidates. Throughout the process, we have been in communication with the applicants, sharing their strengths and weaknesses as well as identifying a relative ranking compared to other applicants. After two ranking reviews we are focusing our efforts among those applicants most qualified to proceed. We are initiating full due diligence among a selected number of the applications.

It is important to note that we cannot enter into loan guarantee agreements relative to any of the projects until the Nuclear Regulatory Commission has issued the Construction and Operating Licenses (COL) which are expected to begin being issued in 2011.

FOSSIL ENERGY ADVANCED TECHNOLOGIES SOLICITATION (DE-FOA-0000008)

As of the application submission deadline of December 22, 2008 for fossil energy advanced technologies, the LGP received eight Part I applications supporting eight different projects. Two of the projects are advanced coal based power generation and the balance are industrial gasification projects focusing on coal to liquids, petcoke to liquids, petcoke to synthetic natural gas (SNG) and coal to SNG.

Part II application submissions are due March 23, 2009. In the meantime, the LGP is in active consultations with the applicants to determine overall credit worthiness, “readiness to proceed”, and environmental benefits.

ENERGY EFFICIENCY, RENEWABLE ENERGY, AND ADVANCED TRANSMISSION AND DISTRIBUTION TECHNOLOGIES SOLICITATION (DE-FOA-0000005)

The application deadline submission date for the energy efficiency, renewable energy and advanced transmission and distribution technologies solicitation is February 26, 2009. The deadline for Part II applications for large-scale integrated renewable projects is April 30, 2009. The LGP is fully prepared to move expeditiously as possible yet in a careful deliberate fashion to bring those projects identified as early movers to the due diligence and approval process.

STAFFING

As of today, a cadre of seasoned professionals with extensive energy experience, principally in project finance, have been hired. Currently, 18 full-time equivalent employees are on board and they are augmented by 11 contractors for a total of 29 people. The LGP is continuing to recruit and hire qualified personnel of the highest caliber, as expeditiously as possible, to complete the project evaluation, environmental compliance with a focus on NEPA, due diligence, credit underwriting and monitoring and oversight activities. I might note that while operating under the terms and conditions of the FY 2009 Continuing Resolution, the Loan Guarantee Program is constrained in its ability to achieve the necessary staffing requirements to complete the due diligence and credit underwriting for those applicants from the 2008 solicitations. We are hopeful that the requested funding will be appropriated by March so that we can avoid delaying the evaluation efforts.

I am very proud of the staff as it has accomplished a prodigious amount of work in a relatively short period of time while certainly keeping within the “best practices” of our industry.

I would like to emphasize to the Committee that we represent entirely new skill sets, including project financing, credit underwriting and risk analysis to the Department’s personnel force. We have striven to assimilate ourselves efficiently within the Department. In addition, we have aggressively reached out to establish interagency working relationships as we have broken new ground in the implementation of this important program.

As in any new organization, we have learned much and desire to increasingly do better. We know the industry is anxious for us to approve the initial loan guarantees. We are committed to an effort that produces quality loan guarantees while being mindful of responsible due diligence efforts throughout the vetting process. We are particularly mindful of the earlier experience of the Department’s Loan Guarantee Program in the latter 1970’s and to learn from those experiences. Then as now, the economic uncertainty and the significant risk to taxpayers require us to be very diligent and careful in our credit underwriting activities.

Since the receipt of completed applications in November 2008, the LGP staff has focused on expediting necessary and essential processes with the objective of issuing well structured loan guarantees to technically and financially sound projects.

CONCLUSION

In conclusion, we recognize the sense of urgency and will move as quickly as possible to implement the program while ensuring that the taxpayer's interests are protected. We also understand the importance of following the Congressional report language in the Consolidated Appropriations Act of 2008 requiring an Implementation Plan as well as the conduct of an open and transparent competitive process for the solicited sectors.

I appreciate the opportunity to appear before you to present these comments. I will be happy to take any questions that the members of the Committee may have.