Department Of Energy Loan Guarantee Program & Proposed Senate Clean Energy Financial Institution Legislation

DOE Loan Guarantee Program

<u>Program Objectives</u>

Issue loan guarantees to eligible projects that:

- **Avoid, reduce or sequester air pollutants of anthropogenic emissions of greenhouse gases**
- **Employ new or significantly improved technologies as compared to commercial technologies in service in the United States at the time the guarantee is issued**
- **Can be deployed commercially**
- **Provide a reasonable prospect for repayment**

Status of DOE Loan Guarantee Program

•August 2005	Energy Policy Act of 2005 is enacted, including Title XVII: Incentives for Innovative Technologies, providing the basis of the Loan Guarantee Program
•August 2006	First solicitation issued inviting interested parties to submit pre-applications that meet the Title XVII statutory requirements
•May 2007	DOE issues a Notice of Proposed Rulemaking
•October 2007	DOE issues Final Regulations for Loan Guarantee Program
•October 2007	Sixteen pre-applicants from August 2006 solicitation invited to submit full application.
•December 2007	$38.5 billion in additional loan authority to be used by end of FY09 approved by Congress with **$10.0 billion for energy efficiency, renewable fuels and energy generation** and advanced transmission systems, $18.5 billion for advanced nuclear power facilities, $2.0 billion for the front end of the nuclear fuel cycle and $8.0 billion for advanced coal power generation and coal gasification projects.
•June 2008	Second Solicitation Issues

DOE Loan Guarantee Program

- 2006 DOE First Solicitation
  - DOE selected 16 projects from pre-applications for submission of a full application.
  - No loan guarantees have been issued
- June 30, 2008 DOE Second Solicitation
  - $10 billion loan guarantee authority for renewable energy & related technologies
  - A Request for Information by EERE was issued in for input into the 2008 solicitation

DOE Loan Guarantee Program

Title XVII and the final regulations identify the financial parameters for each project application:

- The Secretary must determine that there is a “reasonable prospect” of repayment before a loan guarantee is issued
- A guarantee shall not exceed 80 percent of total project costs
- The Secretary must charge and collect fees sufficient to cover applicable administrative expenses
- The borrower will pay at the time of closing a “credit subsidy” for the cost associated with a default on its obligation
- Applicants may apply for a 100% guarantee of the debt instrument from DOE funded by the Federal Financing Bank (FFB).
- Guarantees for less than 100% of the loan amount must be funded by an eligible lender other than the FFB (e.g., a private lender)
- The guaranteed portion of a loan may be “stripped” from the non-guaranteed portion, except in cases where the guarantee exceeds 90% of the loan amount

Project: Application and Due Diligence

Application

Solicitation-The Loan Guarantee Program issues a solicitation outlining the necessary content of the applications.

Applications- Applications *and supporting documentation* are submitted to the Loan Guarantee Program through an online portal including:

- **Project Description**
- **Engineering Reports**
- ***Environmental Reports***
- **25% of Application Fee must be paid at the time of application submission**
- **Remaining Application Fee due after DOE notifies applicant of responsiveness**

Due Diligence – Only after full Application Fee is paid

Legal Review	**Technical Review**	**Financial Review**	**Environmental Analysis**

Credit Subsidy will be paid by the project sponsor in order to offset the risk associated with the implementation of the project. Every effort will be made to provide project sponsors, no later than at the time a Term Sheet is provided, a preliminary credit subsidy cost estimate for the desired loan guarantee.

DOE Loan Guarantee Program

- Application Fee

Project Size:	Fee:
Up to $150 M	$75k
$150 - $500 M	$100k
Above $500 M	$125k

- Criteria Weights:

Technical Merit & Relevance	10%
Capabilities & Approach	20%
Environmental & Security Benefits	20%
Creditworthiness	30%
Construction Factors	10%
Legal/Regulatory Factors	10%

Steps to Obtaining a Loan Guarantee

1. Applicant responds to a solicitation with a submittal of a pre-application or application. Applicant submits Application Fee.

2. DOE technical and financial evaluation commences and projects selected to begin negotiation.

3. DOE commences underwriting and due diligence process which includes a comprehensive legal, technical financial, market and environmental analysis of project.

4. DOE issues term sheet setting forth the material terms and conditions of a definitive loan guarantee agreement.

5. Execution of a conditional commitment and preparation of the loan guarantee agreement and associated financing and project documents. Applicant submits Facility Fee.

6. Final approval by the Secretary of Energy, payment of the credit subsidy cost by Applicant and execution of loan guarantee agreement and associated financing and project documents.

DOE Loan Guarantee Program

Additional DOE Loan Guarantee Information

- **Loan Guarantee Program Office Website:**
  www.lgprogram.energy.gov

- **2005 Energy Policy Act:**
  www.lgprogram.energy.gov/EPAof2005.pdf

- **Loan Guarantee Final Rule:**
  www.lgprogram.energy.gov/lgfinalrule.pdf

- **Solicitation Update Subscription:**
  www.lgprogram.energy.gov/subscribe.htm

CLEAN ENERGY BANK OF THE UNITED STATES (CEBUS)

Senator Dominici (R-NM) and Senator Bingaman (D-NM) introduced S.2730 and S. 3233 to create a new quasi-governmental financial institution dedicated to investing in new clean technologies and projects in the United States

S. 2730

Eligibility Criteria:
Projects that avoid, reduce, or sequester air pollutants or greenhouse gases and employ new technologies compared to commercial technologies that are already in service (same as EPACT Title 17).

Corporate Powers:
Authorized to issue direct loans, provide loan guarantees, engage in equity investments, and supply insurance products.

Sector Targeted:
Focused on financing and facilitating the commercial use of clean energy and energy efficient technologies within the United States

S. 2730

Corporate Structure:
The Board has 7 members serving 5-year staggered terms with 5 nominated by the President for confirmation by the Senate and the remaining the 2 (Chairman and Vice Chairman) chosen by board - of the 5 nominated by the President, no more than 3 can be of the same political party (compensation allowed for time spent on work related to bank and reimbursable travel).

Maximum Exposure:
The maximum contingent liability of the Bank is $100 B

Corporate Ownership:
The Bank would be owned by the federal government.

Bond Issuance Limit:
To fund the Bank's operations, up to $2B in notes, debentures, bonds or other obligations may be issued for purchase by the Treasury Secretary.

S. 2730

EPACT Title 17:
Transfers all responsibilities and activities pursuant to Title XVII of EPACT to the Bank, with transition rules to protect rights and preserve obligations under the existing DOE program. Also contains conforming amendments to EPACT.

Audits:
Independent audits conducted at least once every 3 years, subject to Comptroller General review. The Comptroller General may conduct a separate audit whenever the Comptroller deems it necessary.

Reports:
Requires report to Congress on the annual activities of the Bank and on any audits conducted.

S. 3233

Eligibility Criteria:
Projects that increase the efficiency of energy generation, transmission and storage, diversify sources of energy, and stabilize atmospheric greenhouse gas levels - creates a rating system by which eligibility is determined.

Corporate Powers:
Allows for the securitization of private loans so that bonds can be sold based on their revenues.

Sector Targeted:
Requires that 75 percent of the assistance provided go to so-called "breakthrough technologies."

S. 3233

Corporate Structure:
The Board has 9 members serving 4-year staggered terms with all 9 appointed by the President and the Energy Secretary serves as a 10th and ex-officio member - there are no limitations on political affiliation (compensation allowed for reimbursable travel).

Advisory Council:
An Advisory Council is proposed consisting of 8 individuals serving 3-year staggered terms (5 chosen by the Energy Secretary and 3 chosen by the Board). The Advisory Council develops a “rating system” upon which eligibility for assistance is determined, advises the Energy Secretary on technology deployment goals, and sets performance targets for energy technologies seeking assistance.

S. 3233

Maximum Exposure:
There is no limit on the contingent liability of the Corporation - the volume of lending activities is to be determined by the Corporation itself

Corporate Ownership:
The Corporation is permitted to submit a plan to privatize and issue common stock to fund its operations after 5 years, but would be initially owned by the federal government

Bond Issuance Limit:
To fund the Corporation's operations, up to $1.5B in notes, debentures, bonds or other obligations may be issued for purchase by the Treasury Secretary

S. 3233

EPACT Title 17:
Does not alter, in any way, the loan guarantee program created by Title XVII of EPACT

Audits:
Independent audits conducted every year. The Comptroller General may conduct a separate audit whenever the Comptroller deems it necessary

Reports:
Requires report to the Senate ENR and House E&C Committees on the annual activities of the Corporation, on any audits conducted, and reports to the Energy Secretary on the annual/quarterly financials and operations of the Corporation

Would you like to know more about this presentation?

- Steven Chuslo
- Hannon & Armstrong
- schuslo@hannonarmstrong.com

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