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ONE HUNDRED TENTH CONGRESS

U.S. House of Representatives
Committee on Energy and Commerce
Washington, DC 20515-6115

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May 3, 2007

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The President
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear Mr. President:

The Energy Policy Act of 2005 establishes an important program to provide incentives for the deployment of clean energy technologies. Title XVII authorizes the Federal Government to guarantee the debt of certain energy projects that "avoid, reduce, or sequester air pollutants or anthropogenic emissions of greenhouse gases" and "employ new or significantly improved technologies as compared to commercial technologies in service in the United States at the time the guarantee is issued."

Since its enactment, the Title XVII loan guarantee program has faced many challenges. One challenge originating in the Administration has been the discussion of how much of a project's total financing cost may be backed by the Federal loan guarantee. The Act allows the Secretary of Energy to guarantee up to 80 percent of the total capital costs of a project, anticipating that equity investors will pledge the balance of 20 percent.

We have been told that the Administration is considering a generic standard for this program that could generally limit Federal guarantees to 80 percent of the debt portion of a project, or 64 percent of total capital financing requirements. We urge you to not propose such a guideline.

Our request reflects a number of concerns that have been brought to our attention. As a practical matter, this could shift the debt/equity ratio contemplated in the Act to 64 percent debt/36 percent equity. According to independent financial analysts, this is because the non-guaranteed portion of the "debt" share could revert to equity. Given a choice between a fixed return debt investment that is explicitly subordinated to the Federal Government and an unsecured investment that at least offers the opportunity for sharing in a project's profit, the investor would likely choose equity, and investments under Title XVII could suffer.

We are told, however, that for many U.S. projects to be built, investors may be unwilling to shoulder more than 20 percent of the total capital risk of a project. One reason cited is that investors suffered losses in the 1980s when some plants were completed but never operated. Another reason mentioned is that better, less risky investment opportunities in similar plants exist offshore. Project developers compete globally for financing, even for U.S. investment dollars.

That is why Congress authorized the Title XVII loan guarantee program as a keystone of the Energy Policy Act of 2005. We do not want our next generation of critically needed energy projects to be built, owned, and operated by the Federal Government. Given today's financial climate, the types of plants that will meet our growing energy needs without increasing our greenhouse gas emissions are simply not getting built. The loan guarantee program is a crucial bridge to facilitate development of new technologies such as advanced nuclear, renewable energy systems (including cellulosic ethanol), and coal projects that capture and sequester CO₂.

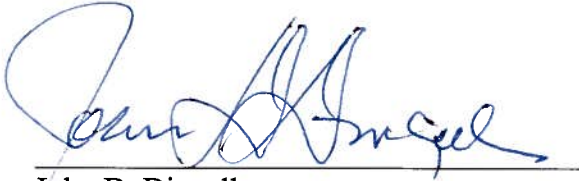
Once a few of these pioneering projects demonstrate success, the risk for similar, follow-on projects will be reduced. The key is to get the first ones financed, built, and operated as soon as possible.

It was not the intent of Congress to waste taxpayer dollars by guaranteeing debt on unworthy projects. Nor do we want projects to enjoy more Federal backing than they actually need, particularly at the expense of other badly needed investments.

We urge the Administration to issue rules for the Title XVII loan guarantee program that do not adopt inflexible standards, that ensure project-by-project scrutiny, and that enable the government to manage risk for the U.S. taxpayers and still attract adequate private investment. Under such rules, and as the program establishes a sound track record, Congress will be more likely to expand funding for the program.

We believe a balance can be achieved under Title XVII between assuming a manageable risk to the Treasury under a well-operated loan guarantee program, while avoiding the unacceptable risk to the Nation of failing to meet our energy needs in an environmentally acceptable manner. That was the intent of Title XVII, and we look forward to working with you to achieve this purpose.

Sincerely,



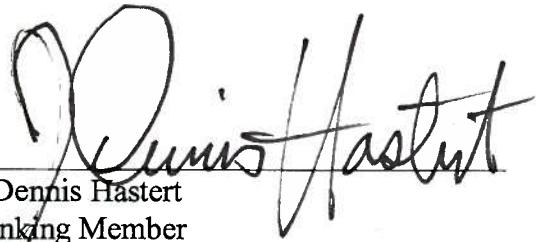
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